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ABSTRACT

This document outlines the various types of insurance policies and their functions to help school administrators improve their management of risk. Eight exhibits highlight information on the following topics: the five basic sections of all insurance policies; key property insurance clauses; general liability; school board legal liability; the functions of umbrella coverage; crime insurance (the theft of money and forgery); and fidelity bonds. Attachments include a declarations page, sample property insurance policy, sample general liability policy, sample school board legal liability policy, and an article on the basics of fidelity bonding. (LMI)

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ARM TECH

ADVANCED RISK MANAGEMENT TECHNIQUES, INC

ED 366 069

UNDERSTANDING WHAT IS IN YOUR INSURANCE POLICIES

Presented to: *ASBO International*
November 1, 1993
Boston, Massachusetts

Presented by: *Steven P. Kahn, CPCU, ARM*
Principal, ARM Tech

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LIST OF EXHIBITS

1 Five Basic Sections of All Insurance Policies

2 Key Property Insurance Clauses

3 General Liability

4 School Board Legal Liability - Errors and Omissions Liability

5 Umbrella Liability - Basic Functions

6 Umbrella Liability - Drop Down Coverage

7 Crime Insurance - Theft of Money and Forgery

8 Fidelity Bonds

Attachments

1 Declarations Page

2 Sample Property Insurance Policy

3 Sample General Liability Policy

4 Sample School Board Legal Liability Policy

5 Basics of Fidelity Bonding, Article by Steven P. Kahn

FIVE BASIC SECTIONS OF ALL INSURANCE POLICIES

1. Declarations

Identify key elements of the insurance contract:

- **Name of insured**
- **Policy term**
- **Limits or amount of insurance**
- **Deductible**
- **Premium**
- **Name of insurer**
- **Policy number**
- **Forms and endorsements attached to the policy**

2. Insuring Agreements

a. Identify the types of losses the insurer will pay.

b. In property insurance, this is:

- **Perils insured against.**
- **Property insured.**

c. In liability insurance, this is:

- **The type of injury you might cause for which you will be protected (e.g., bodily injury, property damage, libel, slander, etc.).**
- **The type of activity for which coverage is provided (e.g., operation of boats, general operations, operation of airplanes, etc.).**

FIVE BASIC SECTIONS OF ALL INSURANCE POLICIES

3. Exclusions

a. Identify the types of losses the insurer will not pay.

b. In property insurance, this is:

- **Perils excluded.**
- **Property excluded.**

c. In liability insurance, this is:

- **Types of injury you might cause for which you are not covered (e.g., intended injury, injury to employees, etc.).**
- **Types of activity for which coverage is not provided (e.g., dumping hazardous waste, operation of airplanes, sexual harassment, discrimination, wrongful termination, etc.).**

4. Conditions

a. State what the insured and insurer must do to protect their rights under the contract.

FIVE BASIC SECTIONS OF ALL INSURANCE POLICIES

b. Important conditions include:

- **Number of days advance notice that must be given to cancel policy.**
- **What insured must do if a loss occurs.**
- **When the insurer must pay the loss.**
- **Amount of property insurance that must be purchased to comply with coinsurance requirements.**
- **What insured must do prior to suing insurer.**
- **What happens if "other insurance" also covers the loss.**
- **Insurer's right to recover losses it pays on insured's behalf.**

5. Endorsements

a. Used to alter the basic insurance policy.

b. Should be sequentially numbered and attached to policy.

KEY PROPERTY INSURANCE CLAUSES

1. **Insured causes of loss:**

   a. **Named perils**
   b. **All risks**

2. **Excluded causes of loss**

3. **Insured property**

4. **Excluded property**

5. **Direct damage vs. extra expense**

6. **Valuation clause:**

   a. **Actual cash value**
   b. **Replacement cost**

7. **Coinsurance clause**

$$\frac{\textit{Amount of Insurance Did Carry}}{\textit{Amount of Insurance Should Carry}} \times \textit{Loss Amount} = \textit{Recovery}$$

8. **Vacancy clause**

KEY PROPERTY INSURANCE CLAUSES

9. Building code changes:

- **a. Demolition cost**
- **b. Loss to undamaged portion of building**
- **c. Increased cost of construction**

10. Deductible:

- **a. Per occurrence**
- **b. Annual aggregate**

GENERAL LIABILITY

1. **Covered types of loss:**

   a. **Bodily injury and property damage liability**
   b. **Personal injury liability**
   c. **Contractual liability**
   d. **Employee benefits liability**
   e. **Fiduciary liability**

2. **Excluded types of losses:**

   a. **Athletic participants**
   b. **Sexual harassment**
   c. **Sexual molestation**
   d. **Wrongful termination**
   e. **Use of boats**
   f. **Use of planes**
   g. **Corporal punishment**

3. **Insureds:**

   a. **District**
   b. **Employees**
   c. **Governing board members**
   d. **Volunteers**
   e. **Student teachers**
   f. **Students in medical training courses**
   g. **Booster clubs**
   h. **Student body organizations**

GENERAL LIABILITY

4. Definitions:

a. Coverage territory
b. Insured contract
c. Occurrence
d. Personal injury

SCHOOL BOARD LEGAL LIABILITY
(Errors and Omissions Liability)

1. **Insured activities - wrongful acts**

2. **Excluded types of loss:**

    a. **Personal profit**
    b. **Fraud or dishonesty**
    c. **Failure to maintain insurance**
    d. **Professional services**
    e. **Breach of contract**
    f. **Collection or refund of taxes**

3. **Claims made vs. occurrence coverage**

    a. **Retroactive date**
    b. **Extended reporting period**

4. **Right and duty to defend**

5. **Insureds:**

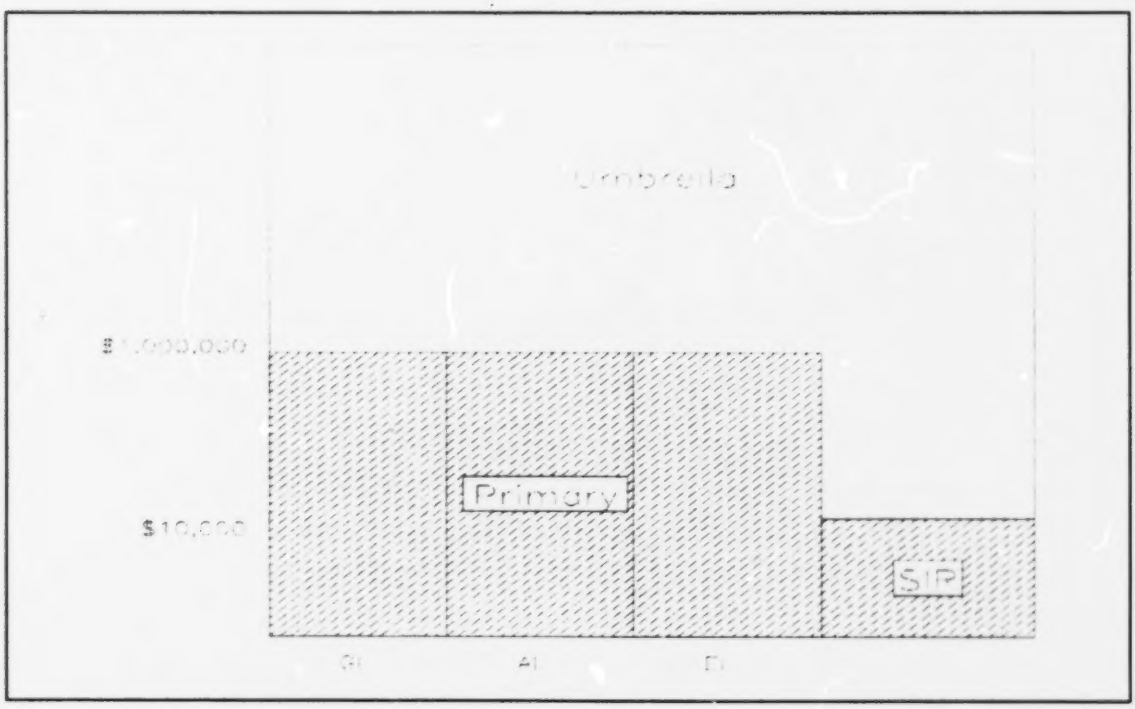
    a. **District**
    b. **Governing board members**
    c. **Employees**
    d. **Volunteers**
    e. **Student teachers**

UMBRELLA LIABILITY
Basic Functions

1. **Provide additional limits for claims covered by underlying policies.**

2. **Cover some claims not covered by underlying policies.**

3. **Drop down and replace underlying policies when primary limits are exhausted.**

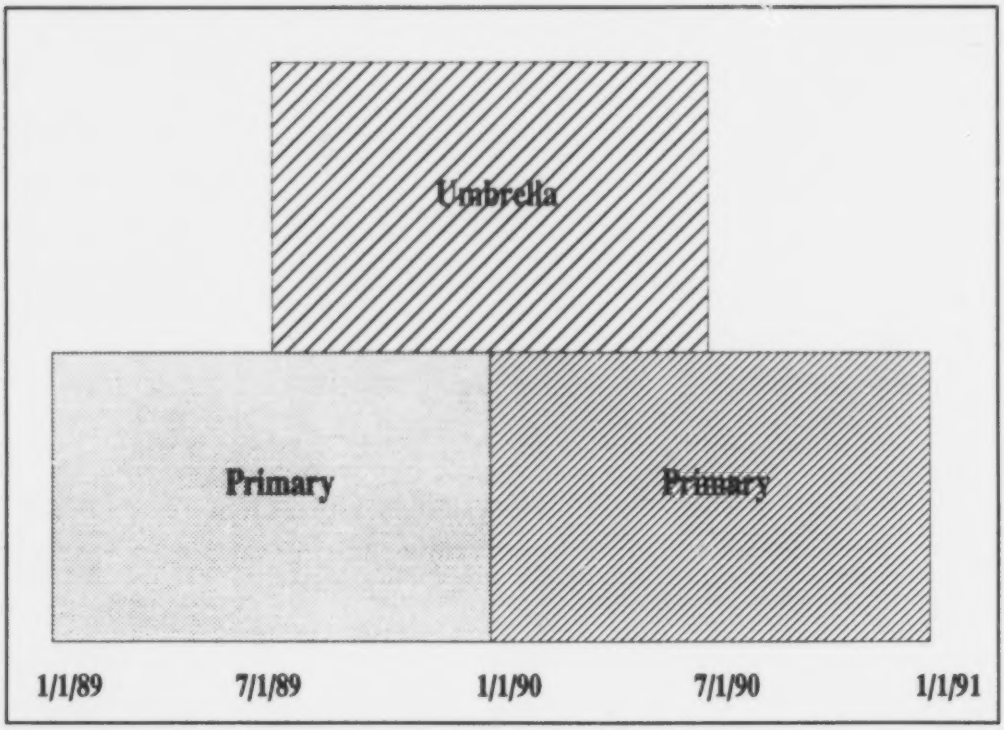


UMBRELLA LIABILITY
Drop Down Coverage

1. **Umbrellas "drop down" to replace exhausted aggregate limits in primary policies. Aggregate limits in primary policies often apply to:**

   - **Errors and omissions liability**
   - **Personal and advertising injury liability**
   - **Products/completed operations liability**
   - **General aggregate**

2. **Aggregate limit in primary must be exhausted by claims occurring during umbrella policy period.**



CRIME INSURANCE
Theft of Money and Forgery

1. **Theft of money and securities**

2. **Forgery or alteration:**

   a. **Covers forgery or alteration of checks, drafts and similar items**

   b. **Excludes acts of employees and trustees**

FIDELITY BONDS

1. **Purpose of fidelity bonds - to reimburse or indemnify one party for the dishonest acts of another party.**

2. **Major types of fidelity coverage:**

   a. **Public Officials Bond**
   b. **Employee Dishonesty**
   c. **Faithful Performance**

3. **Coverage provided by dishonesty bond vs. faithful performance bond:**

   a. ***Dishonesty Bond*** **- A loss sustained by the insured through dishonest acts of an employee, whether identified or not, acting alone or in collusion with other persons.**

   b. ***Faithful Performance Bond*** **- Loss sustained by the insured through failure of any employee to perform faithfully his or her duties as prescribed by law.**

   c. ***Loss Under Prior Bond*** **- Both forms cover loss sustained during the period of a prior bond, provided:**

FIDELITY BONDS

- **Current bond became effective when prior bond was terminated, and**

- **Loss would have been covered by current and prior bond.**

4. Public officials bond or statutory bond

a. Key terms:

- **Principal - official bonded (e.g., treasurer).**
- **Surety - insurance or bonding company.**
- **Obligee - entity protected.**
- **Penal sum - amount of bond (e.g., $100,000).**

b. Obligation for which principal is bonded - to "well, truly and faithfully perform all official duties required by law."

c. Period of coverage - same as term of office.

d. Cancellation:

- **May allow surety to cancel with certain number of days notice (e.g., 60 days).**
- **May be noncancellable.**

FIDELITY BONDS

e. Exclusions:

- **May be no exclusions.**
- **May exclude:**
  - **Bank failure.**
  - **Failure to collect taxes.**

5. Estimating coverage limits -- one insurer's approach:

Exposure factor =20% of total current assets, plus 10% of annual revenue

SUGGESTED MINIMUM LIMITS

Exposure Factor	Amount of Bond
Up to $25,000	$2,500 to $25,000
25,000 to 125,000	25,000 to 50,000
125,000 to 400,000	50,000 to 100,000
400,000 to 1,000,000	100,000 to 150,000
1,000,000 to 2,000,000	150,000 to 200,000
2,000,000 to 4,000,000	200,000 to 300,000
4,000,000 to 6,000,000	300,000 to 400,000
6,000,000 to 10,000,000	400,000 to 600,000
10,000,000 to 15,000,000	600,000 to 800,000
15,000,000 to 25,000,000	800,000 to 1,000,000
25,000,000 to 75,000,000	1,000,000 to 1,500,000
75,000,000 to 175,000,000	1,500,000 to 2,000,000
175,000,000 to 500,000,000	2,000,000 to 3,000,000
500,000,000 to 1,000,000,000	3,000,000 to 4,000,000
1,000,000,000 to 1,500,000,000	4,000,000 to 5,000,000

Attachment 1

Declarations Page

TheTravelers

The Travelers Insurance Companies
(Each a Stock Insurance Company)
One Tower Square
Hartford, CT 06183

CATASTROPHE UMBRELLA POLICY
DECLARATIONS PAGE

POLICY NUMBER

INSURING COMPANY:

1. **NAMED INSURED AND MAILING ADDRESS:**

2. **THE NAMED INSURED IS A:**

☐ CORPORATION ☐ SOLE PROPRIETOR ☐ PARTNERSHIP OR JOINT VENTURE ☐ OTHER

3. **POLICY PERIOD:** From to 12:01 A.M. Standard Time at your mailing address.

4. **PREMIUM:** $ ☐ Flat Charge ☐ Adjustable (See premium schedule)

5. **LIMITS OF INSURANCE:**

a.	$	Each Occurrence
b.	$	Products/Completed Operations Aggregate
c.	$	General Aggregate
d.	$	Retained Limit

6. **UNDERLYING POLICIES AND LIMITS:**

POLICY	LIMITS (000 omitted)	COVERAGE	COMPANY

7. Exclusion h. does not apply to the following:

☐ Non-owned aircraft
☐ Aircraft or watercraft scheduled below:

8. On the effective date shown in Item 3, the Catastrophe Umbrella Liability Policy numbered above includes this Declarations Page and the Policy Jacket (Form CG TO 16 which contains the **Nuclear Energy Liability Exclusion**) and any endorsements listed hereafter:

NAME AND ADDRESS OF AGENT OR BROKER:

COUNTERSIGNED BY:

Authorized Representative

DATE: _____

CG TO 14 10 87

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CP-5563 3-88 PRINTED IN U.S.A.

Attachment 2

Sample Property Insurance Policy

SCHOOL PROPERTY COVERAGE FORM

Various provisions in this policy restrict coverage. Read the entire policy carefully to determine rights, duties and what is and is not covered.

Throughout this policy the words "you" and "your" refer to the Named Insured shown in the Declarations. The words "we," "us" and "our" refer to the Company providing this insurance.

Other words and phrases that appear in quotation marks have special meaning. Refer to SECTION H. DEFINITIONS.

A. COVERAGE

We will pay for direct physical loss of or damage to Covered Property caused by or resulting from any Covered Cause of Loss. Unless otherwise stated, coverage applies only at the premises described in the Declarations.

1. Covered Property

Covered Property, as used in this Coverage Part, means the following types of property for which a Limit of Insurance is shown in the Declarations:

a. **Building**, meaning the building or structure described in the Declarations, including:

(1) Completed additions;

(2) Permanently installed:

(a) Fixtures;

(b) Machinery; and

(c) Equipment;

(3) Outdoor fixtures;

(4) Personal property owned by you that is used to maintain or service the building or structure or its premises, including:

(a) Fire extinguishing equipment;

(b) Outdoor furniture;

(c) Floor coverings; and

(d) Appliances used for refrigerating, ventilating, cooking, dishwashing or laundering;

(5) If not covered by other insurance:

(a) Additions under construction, alterations and repairs to the building or structure;

(b) Materials, equipment, supplies and temporary structures, on or within 1,000 feet of the described premises, used for making additions, alterations or repairs to the building or structure.

If there is a law in effect at the time of loss that regulates zoning, land use or construction of a building, and if that law affects the repair or rebuilding of the lost or damaged building, and if you:

(1) repair or rebuild the building as soon as reasonably possible, we will pay:

(a) for loss to the undamaged portion of the building;

(b) the cost to demolish and clear the site of the undamaged portions of the building; and

(c) if replacement cost coverage applies, we will pay the increased cost to repair or rebuild a building intended for similar occupancy and of the same general size as the current property;

(2) do not repair, rebuild or replace the building, we will pay:

(a) the actual value of the damaged and undamaged portions of the building; and

(b) the cost to demolish and clear the site of the undamaged portion of the building.

b. **Your Business Personal Property** located in or on the building described in the Declarations or in the open (or in a vehicle) within 1,000 feet of the described premises, consisting of the following unless otherwise specified in the Declarations:

(1) Furniture and fixtures;

(2) Machinery and equipment;

(3) "Stock;"

(4) All other personal property owned by you and used in your business;

(5) Labor, materials or services furnished or arranged by you on personal property of others;

(6) Your use interest as tenant in improvements and betterments. Improvements and betterments are fixtures, alterations, installations or additions:

(a) Made a part of the building or structure you occupy but do not own; and

(b) You made or acquired at your expense but cannot legally remove;

(7) Leased personal property for which you have a contractual responsibility to insure, unless otherwise provided for under Personal Property of Others.

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c. **Personal Property of Others** that is:

(1) In your care, custody or control; and

(2) Located in or on the building described in the Declarations or in the open (or in a vehicle) within 1,000 feet of the described premises.

However, our payment for loss of or damage to personal property of others will only be for the account of the owner of the property.

2. **Property Not Covered**

Covered Property does not include:

a. Accounts, bills, currency, deeds, evidences of debt (food stamps are not evidence of debt), money, notes or securities, except as provided in the Coverage Extensions;

b. Animals, unless owned by others and boarded by you, or if owned by you, only as "stock" while inside of buildings;

c. Automobiles held for sale;

d. Bridges, roadways, walks, patios or other paved surfaces;

e. Contraband, or property in the course of illegal transportation or trade;

f. The cost of excavations, grading, backfilling or filling;

g. Foundations of buildings, structures, machinery or boilers if their foundations are below:

(1) The lowest basement floor; or

(2) The surface of the ground, if there is no basement;

h. Land (including land on which the property is located), water, growing crops or lawns;

i. Personal property while airborne or waterborne;

j. Pilings, piers, wharves or docks;

k. Property that is covered under another coverage form of this or any other policy in which it is more specifically described, except for the excess of the amount due (whether you can collect on it or not) from that other insurance;

l. Retaining walls that are not part of the building described in the Declarations;

m. Underground pipes, flues or drains;

n. The cost to research, replace or restore the information on valuable papers and records, including those which exist on electronic or magnetic media, except as provided in the Coverage Extensions;

o. Vehicles or self-propelled machines (including aircraft or watercraft) that:

(1) Are licensed for use on public roads; or

(2) Are operated principally away from the described premises.

This paragraph does not apply to:

(a) Vehicles or self-propelled machines or autos you manufacture, process or warehouse;

(b) Vehicles or self-propelled machines, other than autos, you hold for sale; or

(c) Rowboats or canoes out of water at the described premises;

p. The following property while outside of buildings:

(1) Grain, hay, straw or other crops;

(2) Fences, radio or television antennas, including their lead-in wiring, masts or towers, signs (other than signs attached to buildings), trees, shrubs or plants, (other than "stock" of trees, shrubs or plants, all except as provided in the Coverage Extensions.

3. **Covered Causes of Loss**

See applicable Causes of Loss Form as shown in the Declarations.

4. **Additional Coverages**

a. **Debris Removal**

(1) We will pay your expense to remove debris of Covered Property from the described premises caused by or resulting from a Covered Cause of Loss that occurs during the policy period. The expenses will be paid only if they are reported to us in writing within 180 days of the date of direct physical loss or damage.

(2) The most we will pay under this Additional Coverage is 25% of:

(a) The amount we pay for the direct physical loss of or damage to Covered Property; plus

(b) The deductible in this policy applicable to that loss or damage.

But this limitation does not apply to any additional debris removal limit provided in the Limits of Insurance section.

(3) This Additional Coverage does not apply to costs to:

(a) Extract "pollutants" from land or water; or

(b) Remove, restore or replace polluted land or water.

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b. **Preservation of Property**

If it is necessary to move Covered Property from the described premises to preserve it from loss or damage by a Covered Cause of Loss, we will pay for any direct physical loss or damage to that property:

(1) While it is being moved or while temporarily stored at another location; and

(2) Only if the loss or damage occurs within 30 days after the property is first moved.

c. **Fire Department Service Charge**

When the fire department is called to save or protect Covered Property from a Covered Cause of Loss, we will pay up to $1,000 for your liability for fire department service charges:

(1) Assumed by contract or agreement prior to loss; or

(2) Required by local ordinance.

No Deductible applies to this Additional Coverage.

d. **Pollutant Clean Up and Removal**

We will pay your expense to extract "pollutants" from land or water at the described premises if the discharge, dispersal, seepage, migration, release or escape of the "pollutants" is caused by or results from a Covered Cause of Loss that occurs during the policy period. The expenses will be paid only if they are reported to us in writing within 180 days of the date on which the Covered Cause of Loss occurs.

This Additional Coverage does not apply to costs to test for, monitor or assess the existence, concentration or effects of "pollutants". But we will pay for testing which is performed in the course of extracting the "pollutants" from the land or water.

The most we will pay under this Additional Coverage for each described premises is $25,000 for the sum of all covered expenses arising out of Covered Causes of Loss occurring during each separate 12 month period of this policy.

5. **Coverage Extensions**

Except as otherwise provided, the following Extensions apply to property located in or on the building described in the Declarations or in the open (or in a vehicle) within 1,000 feet of the described premises.

If a Coinsurance percentage of 80% or more, or a Value Reporting period symbol, is shown in the Declarations, you may extend the insurance provided by this Coverage Part as follows:

a. **Newly Acquired or Constructed Property**

(1) You may extend the insurance that applies to Building to apply to:

(a) Your new buildings while being built on the described premises; and

(b) Buildings you acquire at locations, other than the described premises, intended for:

(i) Use similar to the building described in the Declarations; or

(ii) Use as a warehouse.

The most we will pay for loss or damage under this Extension is 50% of the Limit of Insurance for Building shown in the Declarations, but not more than $500,000 at each building.

(2) You may extend the insurance that applies to Your Business Personal Property to apply to that property at any location you acquire other than at fairs or exhibitions.

The most we will pay for loss or damage under this Extension is 25% of the Limit of Insurance for Your Business Personal Property shown in the Declarations, but not more than $250,000 at each building.

(3) Insurance under this Extension for each newly acquired or constructed property will end when any of the following first occurs:

(a) This policy expires.

(b) 30 days expire after you acquire or begin to construct the property; or

(c) You report values to us.

We will charge you additional premium for values reported from the date construction begins or you acquire the property.

b. **Personal Effects and Property of Others**

You may extend the insurance that applies to Your Business Personal Property to apply to:

(1) Personal effects owned by you, your officers, your partners or your employees.

The most we will pay for loss of or damage by a Covered Cause of Loss under this extension is $10,000.

(2) Personal property of others in your care, custody or control.

The most we will pay for loss of or damage by a Covered Cause of Loss under this extension is $10,000. Our payment for loss of or damage to personal property of others will only be for the account of the owner of the property.

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c. **Valuable Papers and Records — Cost of Research**

You may extend the insurance that applies to Your Business Personal Property to apply to your costs to research, replace or restore the lost information on lost or damaged valuable papers and records, including those which exist on electronic or magnetic media, for which duplicates do not exist. The most we will pay under this Extension is $10,000 at each described premises.

d. **Property Off-Premises and in Transit**

We will pay up to the limit shown in the Commercial Property Schedule for Property Off-Premises and in Transit for your business personal property and personal property of others in your care, custody or control. The property must be in transit or temporarily at a location you do not own, lease or operate. This extension applies only if loss or damage is caused by a Covered Cause of Loss.

This extension is subject to the deductible shown in the Commercial Property Schedule for Property Off-Premises and in Transit.

e. **Outdoor Property**

You may extend the insurance provided by this Coverage Form to apply to your outdoor fences, radio and television antennas, lights, poles and bleachers, signs (other than signs attached to buildings), trees, shrubs and plants (other than "stock" of trees, shrubs or plants), including debris removal expense, caused by or resulting from any of the following causes of loss if they are Covered Causes of Loss:

(1) Fire;

(2) Lightning;

(3) Windstorm;

(4) Explosion;

(5) Riot or Civil Commotion; or

(6) Aircraft.

The most we will pay for loss or damage under this Extension is $10,000, but not more than:

(a) $5,000 for signs (other than signs attached to buildings);

(b) $500 for any one tree, shrub or plant.

f. **Extra Expense**

You may extend up to $10,000 to cover the necessary extra expense you incur in order to continue as nearly as practicable the normal operations of your business immediately following direct physical loss or damage caused by a Covered Cause of Loss to buildings or personal property at a premises described in the Declarations.

Extra expense means necessary expenses you incur during the "period of restoration" that you would not have incurred if there had been no direct physical loss or damage to property caused by or resulting from a Covered Cause of Loss.

g. **Water Damage**

You may apply up to $5,000 to cover loss or damage caused directly or indirectly by water that backs up from a sewer or drain. Such loss or damage is excluded however, if any other cause or event which is not a Covered Cause of Loss contributes concurrently or in a sequence.

h. **Accounts Receivable**

You may extend the insurance that applies to Covered Property to cover the following loss and expenses which are the direct result of loss or damage by a Covered Cause of Loss to accounts receivable records:

(1) All sums due you from customers, provided you are unable to effect collection;

(2) Interest charges on any loan to offset impaired collections pending repayment of such sums made uncollectible by loss or damage;

(3) Collection expenses in excess of normal collection costs made necessary because of loss or damage; or

(4) Other reasonable expenses incurred by you in re-establishing records of accounts receivable following such loss or damage.

The most we will pay under this Extension is $5,000 at each described premises.

i. **Money and Securities**

(1) We will pay for loss of money and securities used in your business while at a bank or savings institution, within your living quarters or the living quarters of your partners or any employee having use and custody of the property, at the described premises, or in transit between any of these places, resulting directly from:

(a) Theft, meaning any act of stealing;

(b) Disappearance; or

(c) Destruction.

(2) In addition to the Limitations and Exclusions applicable to property coverage, we will not pay for loss:

(a) Resulting from accounting or arithmetical errors or omissions;

(b) Due to the giving or surrendering of property in any exchange or purchase; or

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(c) Of property contained in any money-oriented device unless the amount of money deposited in it is recorded by a continuous recording instrument in the device.

(3) The most we will pay for loss in any one occurrence is:

(a) $2,500 for money and securities while

(1) In or on the described premises; or

(2) Within a bank or savings institution; and

(b) $2,500 for money and securities while anywhere else.

(4) All loss:

(a) Caused by one or more persons; or

(b) Involving a single act or series of related acts;

is considered one occurrence.

(5) You must keep records of all money and securities so we can verify the amount of any loss or damage.

(6) In the event of loss or damage we will determine the value as follows:

(a) Money at its face value; and

(b) Securities at their value at the close of business on the day the loss is discovered.

j. Fine Arts

You may extend the insurance that applies to Covered Property to cover loss or damage to paintings, etchings, pictures, tapestries, art glass windows and other bona fide works of art of rarity, historical value or artistic merit. This Extension is subject to the following:

(1) Loss or damage must be caused by a Covered Cause of Loss; and

(2) The most we will pay under this Extension is $2,500 at each described premises.

k. Fire Extinguisher Recharge

We will pay up to $1,000 in any one fire for the cost of recharging your industry recognized standards approved type ABS (multi-purpose) fire extinguishers or dry chemical fixed pipe fire extinguishing systems after being used in fighting a fire on your premises or on adjoining premises.

l. Spoilage Coverage

The most we will pay under this coverage extension is $10,000.

(1) This policy is extended to cover "perishable stock" at the described premises owned by you or by others that is in your care, custody or control.

"Perishable stock" is defined as personal property that is:

(a) maintained under controlled conditions for its preservation; and

(b) susceptible to loss or damage if the controlled conditions change.

(2) For the purpose of this extension only, the Covered Cause of Loss is defined as:

(a) Breakdown or Contamination, meaning:

(1) Change in temperature or humidity resulting from mechanical breakdown or failure of refrigerating, cooling or humidity control apparatus or equipment, only while such equipment or apparatus is at the described premises; and

(2) Contamination by the refrigerant.

(b) Power Outage, meaning change in temperature or humidity resulting from complete or partial interruption or surge of electrical power, either on or off the described premises, due to conditions beyond your control.

3. For the purpose of this extension only, the following Exclusions are added:

We will not pay for loss or damage caused by or resulting from:

(a) The disconnection of any refrigerating, cooling or humidity control system from the source of power.

(b) The inability of an Electrical Utility Company or other power source to provide sufficient power due to:

(1) lack of fuel; or

(2) governmental order.

(c) The inability of a power source at the described premises to provide sufficient power due to lack of generating capacity to meet demand.

(d) Breaking of any glass that is a permanent part of any refrigerating, cooling or humidity control unit.

Each of these Extensions is additional insurance. The Additional Condition, Coinsurance, does not apply to these Extensions.

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B. EXCLUSIONS

See applicable Causes of Loss Form as shown in the Declarations.

C. LIMITS OF INSURANCE

The most we will pay for loss or damage in any one occurrence is the applicable Limit of Insurance shown in the Declarations.

The most we will pay for loss or damage to outdoor signs attached to buildings is $5,000 per sign in any one occurrence.

The limits applicable to the Coverage Extensions and the Fire Department Service Charge and Pollutant Clean Up and Removal Additional Coverages are in addition to the Limits of Insurance.

Payments under the following Additional Coverages will not increase the applicable Limit of Insurance:

1. Preservation of Property; or
2. Debris Removal; but if:
   a. The sum of direct physical loss or damage and debris removal expense exceeds the Limit of Insurance; or
   b. The debris removal expense exceeds the amount payable under the 25% limitation in the Debris Removal Additional Coverage;

   we will pay up to an additional $25,000 for each location in any one occurrence under the Debris Removal Additional Coverage.

D. DEDUCTIBLE

We will not pay for loss or damage in any one occurrence until the amount of loss or damage exceeds the Deductible shown in the Declarations. A separate deductible applies to Property Off Premises and In Transit and is shown in the Commercial Property Schedule. We will then pay the amount of loss or damage in excess of the Deductible, up to the applicable Limit of Insurance, after any deduction required by the Coinsurance condition or the Agreed Value Optional Coverage.

No deductible applies to the Extra Expense Coverage Extension.

E. LOSS CONDITIONS

The following conditions apply in addition to the Common Policy Conditions and the Commercial Property Conditions.

1. **Abandonment**

   There can be no abandonment of any property to us.

2. **Appraisal**

   If we and you disagree on the value of the property or the amount of loss, either may make written demand for an appraisal of the loss. In this event, each party will select a competent and impartial appraiser. The two appraisers will select an umpire. If they cannot agree, either may request that selection be made by a judge of a court having jurisdiction. The appraisers will state separately the value of the property and amount of loss. If they fail to agree, they will submit their differences to the umpire. A decision agreed to by any two will be binding. Each party will:

   a. Pay its chosen appraiser; and
   b. Bear the other expenses of the appraisal and umpire equally.

   If there is an appraisal, we will still retain our right to deny the claim.

3. **Duties in The Event Of Loss Or Damage**
   a. You must see that the following are done in the event of loss or damage to Covered Property:
      (1) Notify the police if a law may have been broken.
      (2) Give us prompt notice of the loss or damage. Include a description of the property involved.
      (3) As soon as possible, give us a description of how, when and where the loss or damage occurred.
      (4) Take all reasonable steps to protect the Covered Property from further damage by a Covered Cause of Loss. If feasible, set the damaged property aside and in the best possible order for examination. Also keep a record of your expenses for emergency and temporary repairs, for consideration in the settlement of the claim. This will not increase the Limit of Insurance.
      (5) At our request, give us complete inventories of the damaged and undamaged property. Include quantities, costs, values and amount of loss claimed.
      (6) As often as may be reasonably required, permit us to inspect the property proving the loss or damage and examine your books and records.

      Also permit us to take samples of damaged and undamaged property for inspection, testing and analysis, and permit us to make copies from your books and records.

      (7) Send us a signed, sworn proof of loss, containing the information we request to investigate the claim. You must do this within 60 days after our request. We will supply you with the necessary forms.
      (8) Cooperate with us in the investigation or settlement of the claim.

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b. We may examine any insured under oath, while not in the presence of any other insured and at such times as may be reasonably required, about any matter relating to this insurance or the claim, including an insured's books and records. In the event of an examination, an insured's answers must be signed.

4. **Loss Payment**

a. In the event of loss or damage covered by this Coverage Form, at our option, we will either:

(1) Pay the value of lost or damaged property;

(2) Pay the cost of repairing or replacing the lost or damaged property;

(3) Take all or any part of the property at an agreed or appraised value; or

(4) Repair, rebuild or replace the property with other property of like kind and quality.

b. We will give notice of our intentions within 30 days after we receive the sworn proof of loss.

c. We will not pay you more than your financial interest in the Covered Property.

d. We may adjust losses with the owners of lost or damaged property if other than you. If we pay the owners, such payments will satisfy your claims against us for the owners' property. We will not pay the owners more than their financial interest in the Covered Property.

e. We may elect to defend you against suits arising from claims of owners of property. We will do this at our expense.

f. We will pay for covered loss or damage within 30 days after we receive the sworn proof of loss, if:

(1) You have complied with all of the terms of this Coverage Part; and

(2) (a) We have reached agreement with you on the amount of loss; or

(b) An appraisal award has been made.

5. **Recovered Property**

If either you or we recover any property after loss settlement, that party must give the other prompt notice. At your option, the property will be returned to you. You must then return to us the amount we paid to you for the property. We will pay recovery expenses and the expenses to repair the recovered property, subject to the Limit of Insurance.

6. **Vacancy**

If the building where loss or damage occurs has been vacant for more than 60 consecutive days before that loss or damage, we will:

a. Not pay for any loss or damage caused by any of the following even if they are Covered Causes of Loss:

(1) Vandalism;

(2) Sprinkler leakage, unless you have protected the system against freezing;

(3) Building glass breakage;

(4) Water damage;

(5) Theft; or

(6) Attempted theft.

b. Reduce the amount we would otherwise pay for the loss or damage by 15%.

A building is vacant when it does not contain enough business personal property to conduct customary operations.

Buildings under construction are not considered vacant.

7. **Valuation**

We will determine the value of Covered Property in the event of loss or damage as follows:

a. At actual cash value as of the time of loss or damage, except as provided in b., c., d., e. and f. below.

b. If the Limit of Insurance for Building satisfies the Additional Condition, Coinsurance, and the cost to repair or replace the damaged building property is $2,500 or less, we will pay the cost of building repairs or replacement.

This provision does not apply to the following even when attached to the building:

(1) Awnings or floor coverings;

(2) Appliances for refrigerating, ventilating, cooking, dishwashing or laundering; or

(3) Outdoor equipment or furniture.

c. "Stock" you have sold but not delivered at the selling price less discounts and expenses you otherwise would have had.

d. Glass at the cost of replacement with safety glazing material if required by law.

e. Tenant's Improvements and Betterments at:

(1) Actual cash value of the lost or damaged property if you make repairs promptly.

(2) A proportion of your original cost if you do not make repairs promptly. We will determine the proportionate value as follows:

(a) Multiply the original cost by the number of days from the loss or damage to the expiration of the lease; and

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(b) Divide the amount determined in (a) above by the number of days from the installation of improvements to the expiration of the lease.

If your lease contains a renewal option, the expiration of the renewal option period will replace the expiration of the lease in this procedure.

(3) Nothing if others pay for repairs or replacement.

f. Valuable Papers and Records, including those which exist on electronic or magnetic media (other than prepackaged software programs), at the cost of:

(1) Blank materials for reproducing the records; and

(2) Labor to transcribe or copy the records when there is a duplicate.

F. ADDITIONAL CONDITIONS

The following conditions apply in addition to the Common Policy Conditions and the Commercial Property Conditions.

1. Coinsurance

If a Coinsurance percentage is shown in the Declarations, the following conditions apply:

a. We will not pay the full amount of any loss if the value of Covered Property at the time of loss times the Coinsurance percentage shown for it in the Declarations is greater than the Limit of Insurance for the property.

Instead, we will determine the most we will pay using the following steps:

(1) Multiply the value of Covered Property at the time of loss by the Coinsurance percentage;

(2) Divide the Limit of Insurance of the property by the figure determined in step (1);

(3) Multiply the total amount of loss, before the application of any deductible, by the figure determined in step (2); and

(4) Subtract the deductible from the figure determined in step (3).

We will pay the amount determined in step (4) or the Limit of Insurance, whichever is less. For the remainder, you will either have to rely on other insurance or absorb the loss yourself.

b. If one Limit of Insurance applies to two or more separate items, this condition will apply to the total of all property to which the limit applies.

2. Mortgage Holders

a. The term mortgage holder includes trustee.

b. We will pay for covered loss of or damage to buildings or structures to each mortgage holder shown in the Declarations in their order of precedence, as interests may appear.

c. The mortgage holder has the right to receive loss payment even if the mortgage holder has started foreclosure or similar action on the building or structure.

d. If we deny your claim because of your acts or because you have failed to comply with the terms of this Coverage Part, the mortgage holder will still have the right to receive loss payment if the mortgage holder:

(1) Pays any premium due under this Coverage Form at our request if you have failed to do so;

(2) Submits a signed, sworn statement of loss within 60 days after receiving notice from us of your failure to do so; and

(3) Has notified us of any change in ownership, occupancy or substantial change in risk known to the mortgage holder.

All of the terms of this Coverage Part will then apply directly to the mortgage holder.

e. If we pay the mortgage holder for any loss or damage and deny payment to you because of your acts or because you have failed to comply with the terms of this Coverage Form:

(1) The mortgage holder's rights under the mortgage will be transferred to us to the extent of the amount we pay; and

(2) The mortgage holder's right to recover the full amount of the mortgage holder's claim will not be impaired.

At our option, we may pay to the mortgage holder the whole principal on the mortgage plus any accrued interest. In this event, your mortgage and note will be transferred to us and you will pay your remaining mortgage debt to us.

f. If we cancel this policy, we will give written notice to the mortgage holder at least:

(1) 10 days before the effective date of cancellation if we cancel for your nonpayment of premium; or

(2) 30 days before the effective date of cancellation if we cancel for any other reason.

g. If we elect not to renew this policy, we will give written notice to the mortgage holder at least 10 days before the expiration date of this policy.

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G. OPTIONAL COVERAGES

If shown in the Declarations, the following Optional Coverages apply separately to each item.

1. **Agreed Value**

   The Additional Condition, Coinsurance, does not apply to Covered Property to which this Optional Coverage applies.

   We will pay no more for loss of or damage to the property than the proportion that the Limit of Insurance under this Coverage Form for the property bears to the Agreed Value shown for it in the Declarations.

2. **Inflation Guard**

   a. The Limit of Insurance for property to which this Optional Coverage applies will automatically increase by the annual percentage shown in the Declarations.

   b. The amount of increase will be:

      (1) The Limit of Insurance that applied on the most recent of the policy inception date, the policy anniversary date, or any other policy change amending the Limit of Insurance, times

      (2) The percentage of annual increase shown in the Declarations, expressed as a decimal (example: 8% if .08), times

      (3) The number of days since the beginning of the current policy year of the effective date of the most recent policy change amending the Limit of Insurance, divided by 365.

3. **Replacement Cost**

   a. Replacement Cost (without deduction for depreciation) replaces Actual Cash Value in the Loss Condition, Valuation, of this Coverage Form.

   b. This Optional Coverage does not apply to:

      (1) Property of others;

      (2) Contents of a residence;

      (3) Manuscripts;

      (4) Works of art, antiques or rare articles, including etchings, pictures, statuary, marbles, bronzes, porcelains and bric-a-brac; or

      (5) "Stock", unless the Including "Stock" option is shown in the Declarations.

   c. You may make a claim for loss or damage covered by this insurance on an actual cash value basis instead of on a replacement cost basis. In the event you elect to have loss or damage settled on an actual cash value basis, you may still make a claim for the additional coverage this Optional Coverage provides if you notify us of your intent to do so within 180 days after the loss or damage.

   d. We will not pay on a replacement cost basis for any loss or damage:

      (1) Until the lost or damaged property is actually repaired or replaced; and

      (2) Unless the repairs or replacement are made as soon as reasonably possible after the loss or damage.

   e. We will not pay more for loss or damage on a replacement cost basis than the least of:

      (1) The Limit of Insurance applicable to the lost or damaged property;

      (2) The cost to replace, on the same premises, the lost or damaged property with other property:

         (a) Of comparable material and quality; and

         (b) Used for the same purpose; or

      (3) The amount you actually spend that is necessary to repair or replace the lost or damaged property.

   f. Permission is granted to rebuild at another location.

H. DEFINITIONS

1. "Pollutants" means any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals and waste including Polychlorinated Biphenyls. Waste includes materials to be recycled, reconditioned or reclaimed.

2. "Stock" means merchandise held in storage or for sale, raw materials and in-process or finished goods, including supplies used in their packing or shipping.

3. "Period of Restoration" means the period of time that:

   a. Begins with the date of direct physical loss or damage caused by or resulting from any Covered Cause of Loss at the described premises; and

   b. Ends on the date when the property at the described premises should be repaired, rebuilt or replaced with reasonable speed and similar quality.

   "Period of restoration" does not include any increased period required due to the enforcement of any ordinance or law that:

   (1) Regulates the construction, use or repair, or requires the tearing down of any property; or

   (2) Requires any insured or others to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of "pollutants".

   The expiration date of this policy will not cut short the "period of restoration".

   Insurance under this Extension will not pay for:

   (1) loss of income.

   (2) any other consequential or remote loss.

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SCHOOL PROPERTY COVERAGE
SPECIAL CAUSES OF LOSS

Words and phrases that appear in quotation marks have special meaning. Refer to Section F. — Definitions.

A. COVERED CAUSES OF LOSS

When Special is shown in the Declarations, Covered Causes of Loss means RISKS OF DIRECT PHYSICAL LOSS unless the loss is:

1. Excluded in Section **B.**, Exclusions; or
2. Limited in Section **C.**, Limitations;

that follow.

B. EXCLUSIONS

1. We will not pay for loss or damage caused directly or indirectly by any of the following. Such loss or damage is excluded regardless of any other cause or event that contributes concurrently or in any sequence to the loss.

   a. Earth Movement

   (1) Any earth movement (other than sinkhole collapse), such as an earthquake, landslide, mine subsidence or earth sinking, rising or shifting. But if loss or damage by fire or explosion results, we will pay for that resulting loss or damage.

   (2) Volcanic eruption, explosion or effusion. But if loss or damage by fire, building glass breakage or volcanic action results, we will pay for that resulting loss or damage.

   Volcanic action means direct loss or damage resulting from the eruption of a volcano when the loss or damage is caused by:

   (a) Airborne volcanic blast or airborne shock waves;

   (b) Ash, dust or particulate matter; or

   (c) Lava flow.

   All volcanic eruptions that occur within any 168-hour period will constitute a single occurrence.

   Volcanic action does not include the cost to remove ash, dust or particulate matter that does not cause direct physical loss or damage to the described property.

   b. Governmental Action

   Seizure or destruction of property by order of governmental authority.

   But we will pay for acts of destruction ordered by governmental authority and taken at the time of a fire to prevent its spread, if the fire would be covered under this Coverage Form.

   c. Nuclear Hazard

   Nuclear reaction or radiation, or radioactive contamination, however caused.

   But if loss or damage by fire results, we will pay for that resulting loss or damage.

   d. Off-Premises Services

   The failure of power or other utility service supplied to the described premises, however caused, if the failure occurs away from the described premises.

   But if loss or damage by a Covered Cause of Loss results, we will pay for that resulting loss or damage.

   e. War and Military Action

   (1) War, including undeclared or civil war;

   (2) Warlike action by a military force, including action in hindering or defending against an actual or expected attack, by any government, sovereign or other authority using military personnel or other agents; or

   (3) Insurrection, rebellion, revolution, usurped power, or action taken by governmental authority in hindering or defending against any of these.

   f. Water

   (1) Flood, surface water, waves, tides, tidal waves, overflow of any body of water, or their spray, all whether driven by wind or not; or

   (2) Mudslide or mudflow;

   (3) Water under the ground surface pressing on, or flowing or seeping through:

   (a) Foundations, walls, floors or paved surfaces;

   (b) Basements, whether paved or not; or

   (c) Doors, windows or other openings.

   But if loss or damage by fire, explosion or sprinkler leakage results, we will pay for that resulting loss or damage.

2. We will not pay for loss or damage caused by or resulting from any of the following:

   a. Artificially generated electric current, including electric arcing, that disturbs electrical devices, appliances or wires.

   But if loss or damage by fire results, we will pay for that resulting loss or damage.

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b. Delay, loss of use, loss of market.

c. Smoke, vapor or gas from agricultural smudging or industrial operations.

d. (1) Wear and tear;

(2) Rust, corrosion, fungus, decay, deterioration, hidden or latent defect or any quality in property that causes it to damage or destroy itself;

(3) Smog;

(4) Settling, cracking, shrinking or expansion;

(5) Insects, birds, rodents or other animals.

(6) Mechanical breakdown, including rupture or bursting caused by centrifugal force. However, this does not apply to any resulting loss or damage caused by elevator collision.

(7) The following causes of loss to personal property:

(a) Dampness or dryness of atmosphere;

(b) Changes in or extremes of temperature;

(c) Marring or scratching.

But if loss or damage by the "specified causes of loss" or building glass breakage results, we will pay for that resulting loss or damage.

e. Explosion of steam boilers, steam pipes, steam engines or steam turbines owned or leased by you, or operated under your control. But if loss or damage by fire or combustion explosion results, we will pay for that resulting loss or damage. We will also pay for loss or damage caused by or resulting from the explosion of gases or fuel within the furnace of any fired vessel or within the flues or passages through which the gases of combustion pass.

f. Continuous or repeated seepage or leakage of water that occurs over a period of 14 days or more.

g. Water, other liquids, powder or molten material that leaks or flows from plumbing, heating, air conditioning or other equipment (except fire protective systems) caused by or resulting from freezing unless:

(1) You do your best to maintain heat in the building or structure; or

(2) You drain the equipment and shut off the supply if the heat is not maintained.

h. Dishonest or criminal act by you, any of your partners, employees, directors, trustees, authorized representatives or anyone to whom you entrust the property for any purpose:

(1) Acting alone or in collusion with others; or

(2) Whether or not occurring during the hours of employment.

This exclusion does not apply to acts of destruction by your employees; but theft by employees is not covered.

i. Voluntary parting with any property by you or anyone else to whom you have entrusted the property if induced to do so by any fraudulent scheme, trick, device or false pretense.

j. Rain, snow, ice or sleet to personal property in the open.

k. Collapse, except as provided below in the Additional Coverage for Collapse. But if loss or damage by a Covered Cause of Loss results at the described premises, we will pay for that resulting loss or damage.

l. Discharge, dispersal, seepage, migration, release or escape of "pollutants" unless the discharge, dispersal, seepage, migration, release or escape is itself caused by any of the "specified causes of loss". But if loss or damage by the "specified causes of loss" results, we will pay for the resulting damage caused by the "specified causes of loss".

3. Regardless of any coverage granted elsewhere by this form, we will not pay for any loss or expense resulting from:

(a) asbestos material removal unless the asbestos is itself damaged by fire, lightning, aircraft impact, explosion, riot, civil commotion, smoke, vehicle impact, windstorm or hail, vandalism, malicious mischief, or leakage or accidental discharge from automatic fire protective systems.

(b) demolition or increased cost of reconstruction, repair, debris removal or loss of use necessitated by the enforcement of any law or ordinance regulating asbestos material.

(c) any governmental direction or request declaring that asbestos material present in or part of or utilized on any undamaged portion of the insured's property can no longer be used for the purpose for which it was intended or installed and must be removed or modified.

The total amount recoverable for both loss to property and asbestos removal expense under this section shall be a part of and not in addition to the Limits of Insurance.

4. We will not pay for loss or damage caused by or resulting from any of the following. But if loss or damage by a Covered Cause of Loss results, we will pay for that resulting loss or damage.

a. Weather conditions. But this exclusion only applies if weather conditions contribute in any way with a cause or event excluded in paragraph 1. above to produce the loss or damage.

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b. Acts or decisions, including the failure to act or decide, of any person, group, organization or governmental body.

c. Faulty, inadequate or defective:

(1) Planning, zoning, development, surveying, siting;

(2) Design, specifications, workmanship, repair, construction, renovation, remodeling, grading, compaction;

(3) Materials used in repair, construction, renovation or remodeling; or

(4) Maintenance;

of part or all of any property on or off the described premises.

5. **Special Exclusions**

The following provisions apply only to the Extra Expense Coverage Form.

We will not pay for:

(a) Any loss caused by or resulting from direct physical loss or damage to radio or television antennas, including their lead-in wiring, masts or towers.

(b) Any increase of loss caused by or resulting from:

(1) Delay in rebuilding, repairing or replacing the property or resuming "operations", due to interference at the location of the rebuilding, repair or replacement by strikers or other persons; or

(2) Suspension, lapse or cancellation of any license, lease or contract.

(c) Any Extra Expense caused by or resulting from suspension, lapse or cancellation of any license, lease or contract beyond the "period of restoration".

(d) Any other consequential loss.

C. **LIMITATIONS**

1. We will not pay for loss of or damage to:

a. Steam boilers, steam pipes, steam engines or steam turbines caused by or resulting from any condition or event inside such equipment. But we will pay for loss of or damage to such equipment caused by or resulting from an explosion of gases or fuel within the furnace of any fired vessel or within the flues or passages through which the gases of combustion pass.

b. Hot water boilers or other water heating equipment caused by or resulting from any condition or event inside such boilers or equipment, other than an explosion.

c. The interior of any building or structure, or to personal property in the building or structure, caused by or resulting from rain, snow, sleet, ice, sand or dust, whether driven by wind or not, unless:

(1) The building or structure first sustains damage by a Covered Cause of Loss to its roof or walls through which the rain, snow, sleet, ice, sand or dust enters; or

(2) The loss or damage is caused by or results from thawing of snow, sleet or ice on the building or structure.

d. Building materials and supplies not attached as part of the building or structure, unless held for sale by you, caused by or resulting from theft.

e. Property that is missing, where the only evidence of the loss or damage is a shortage disclosed on taking inventory, or other instances where there is no physical evidence to show what happened to the property.

f. Gutters and downspouts caused by or resulting from weight of snow, ice or sleet.

g. Property that has been transferred to a person or to a place outside the described premises on the basis of unauthorized instructions.

2. We will not pay for loss of or damage to the following types of property unless caused by the "specified causes of loss" or building glass breakage:

a. Valuable papers and records, such as books of account, manuscripts, abstracts, drawings, card index systems, film, tape, disc, drum, cell or other data processing, recording or storage media, and other records, except as provided under the School Property Coverage Form.

b. Animals, and then only if they are killed or their destruction is made necessary.

c. Builders' machinery, tools and equipment you own or that are entrusted to you unless held for sale by you.

3. For loss or damage by theft, the following types of property are covered only up to the limits shown:

a. $2,500 for furs, fur garments and garments trimmed with fur.

b. $2,500 for jewelry, watches, watch movements, jewels, pearls, precious and semi-precious stones, bullion, gold, silver, platinum and other precious alloys or metals. This limit does not apply to jewelry and watches worth $100 or less per item.

c. $2,500 for patterns, dies, molds and forms

d. $250 for stamps, tickets and letters of credit.

4. We will not pay the cost to repair any defect to a system or appliance from which water, other

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liquid, powder or molten material escapes. But we will pay the cost to repair or replace damaged parts of fire extinguishing equipment if the damage:

a. Results in discharge of any substance from an automatic fire protection system; or

b. Is directly caused by freezing.

D. **ADDITIONAL COVERAGE — COLLAPSE**

We will pay for loss or damage caused by or resulting from risks of direct physical loss involving collapse of a building or any part of a building caused only by one or more of the following:

1. The "specified causes of loss" or breakage of building glass, all only as insured against in this Coverage Form;
2. Hidden decay;
3. Hidden insect or vermin damage;
4. Weight of people or personal property;
5. Weight of rain that collects on a roof;
6. Use of defective material or methods in construction, remodeling or renovation if the collapse occurs during the course of the construction, remodeling or renovation.

We will not pay for loss or damage to the following types of property, if otherwise covered in this Coverage Form, under items 2., 3., 4., 5., and 6. unless the loss or damage is a direct result of the collapse of a building:

outdoor radio or television antennas, including their lead-in wiring, masts or towers; awnings, gutters and downspouts; yard fixtures; outdoor swimming pools; fences; piers, wharves and docks; beach or diving platforms or appurtenances; retaining walls; walks, roadways and other paved surfaces.

Collapse does not include settling, cracking, shrinkage, bulging or expansion.

This Additional Coverage will not increase the Limits of Insurance provided in this Coverage Form.

E. **ADDITIONAL COVERAGE EXTENSION**

Water Damage, Other Liquids, Powder or Molten Material Damage. If loss or damage caused by or resulting from covered water or other liquid, powder or molten material damage loss occurs, we will also pay the cost to tear out and replace any part of the building or structure to repair damage to the system or appliance from which the water or other substance escapes.

F. **DEFINITIONS**

"Specified Causes of Loss" means the following:

Fire; lightning; explosion; wind or hail; smoke; aircraft or vehicles; riot or civil commotion; vandalism; leakage from fire extinguishing equipment; sinkhole collapse; volcanic action; falling objects; weight of snow, ice or sleet; water damage.

1. Sinkhole collapse means the sudden sinking or collapse of land into underground empty spaces created by the action of water on limestone or dolomite. This cause of loss does not include:
   a. The cost of filling sinkholes; or
   b. Sinking or collapse of land into man-made underground cavities.
2. Falling objects does not include loss or damage to:
   a. Personal property in the open; or
   b. The interior of a building or structure, or property inside a building or structure, unless the roof or an outside wall of the building or structure is first damaged by a falling object.
3. Water damage means accidental discharge or leakage of water or steam as the direct result of the breaking or cracking of any part of a system or appliance containing water or steam.

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Attachment 3

Sample General Liability Policy

COMMERCIAL GENERAL LIABILITY COVERAGE FORM

Various provisions in this policy restrict coverage. Read the entire policy carefully to determine rights, duties and what is and is not covered.

Throughout this policy the words "you" and "your" refer to the Named Insured shown in the Declarations, and any other person or organization qualifying as a Named Insured under this policy. The words "we," "us" and "our" refer to the company providing this insurance.

The word "insured" means any person or organization qualifying as such under WHO IS AN INSURED (SECTION II).

Other words and phrases that appear in quotation marks have special meaning. Refer to DEFINITIONS (SECTION V).

SECTION I - COVERAGES

COVERAGE A. BODILY INJURY AND PROPERTY DAMAGE LIABILITY

1. Insuring Agreement.

a. We will pay those sums that the insured becomes legally obligated to pay as damages because of "bodily injury" or "property damage" to which this insurance applies. We will have the right and duty to defend any "suit" seeking those damages. We may at our discretion investigate any "occurrence" and settle any claim or "suit" that may result. But:

(1) The amount we will pay for damages is limited as described in LIMITS OF INSURANCE (SECTION III); and

(2) Our right and duty to defend end when we have used up the applicable limit of insurance in the payment of judgments or settlements under Coverages A or B or medical expenses under Coverage C.

No other obligation or liability to pay sums or perform acts or services is covered unless explicitly provided for under SUPPLEMENTARY PAYMENTS - COVERAGES A AND B.

b. This insurance applies to "bodily injury" and "property damage" only if:

(1) The "bodily injury" or "property damage" is caused by an "occurrence" that takes place in the "coverage territory;" and

(2) The "bodily injury" or "property damage" occurs during the policy period.

c. Damages because of "bodily injury" include damages claimed by any person or organization for care, loss of services or death resulting at any time from the "bodily injury."

2. Exclusions.

This insurance does not apply to:

a. "Bodily injury" or "property damage" expected or intended from the standpoint of the insured. This exclusion does not apply to "bodily injury" resulting from the use of reasonable force to protect persons or property.

b. "Bodily injury" or "property damage" for which the insured is obligated to pay damages by reason of the assumption of liability in a contract or agreement. This exclusion does not apply to liability for damages:

(1) Assumed in a contract or agreement that is an "insured contract," provided the "bodily injury" or "property damage" occurs subsequent to the execution of the contract or agreement; or

(2) That the insured would have in the absence of the contract or agreement.

c. "Bodily injury" or "property damage" for which any insured may be held liable by reason of:

(1) Causing or contributing to the intoxication of any person;

(2) The furnishing of alcoholic beverages to a person under the legal drinking age or under the influence of alcohol; or

(3) Any statute, ordinance or regulation relating to the sale, gift, distribution or use of alcoholic beverages.

This exclusion applies only if you are in the business of manufacturing, distributing, selling, serving or furnishing alcoholic beverages.

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d. Any obligation of the insured under a workers' compensation, disability benefits or unemployment compensation law or any similar law.

e. "Bodily injury" to:

(1) An employee of the insured arising out of and in the course of employment by the insured; or

(2) The spouse, child, parent, brother or sister of that employee as a consequence of (1) above.

This exclusion applies:

(1) Whether the insured may be liable as an employer or in any other capacity; and

(2) To any obligation to share damages with or repay someone else who must pay damages because of the injury.

This exclusion does not apply to liability assumed by the insured under an "insured contract."

f. (1) "Bodily injury" or "property damage" arising out of the actual, alleged or threatened discharge, dispersal, seepage, migration, release or escape of pollutants:

(a) At or from any premises, site or location which is or was at any time owned or occupied by, or rented or loaned to, any insured;

(b) At or from any premises, site or location which is or was at any time used by or for any insured or others for the handling, storage, disposal, processing or treatment of waste;

(c) Which are or were at any time transported, handled, stored, treated, disposed of, or processed as waste by or for any insured or any person or organization for whom you may be legally responsible; or

(d) At or from any premises, site or location on which any insured or any contractors or subcontractors working directly or indirectly on any insured's behalf are performing operations:

(i) if the pollutants are brought on or to the premises, site or location in connection with such operations by such insured, contractor or subcontractor; or

(ii) if the operations are to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of pollutants.

Subparagraphs (a) and (d)(i) do not apply to "bodily injury" or "property damage" arising out of heat, smoke or fumes from a hostile fire.

As used in this exclusion, a hostile fire means one which becomes uncontrollable or breaks out from where it was intended to be.

(2) Any loss, cost or expense arising out of any:

(a) Request, demand or order that any insured or others test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of pollutants; or

(b) Claim or suit by or on behalf of a governmental authority for damages because of testing for, monitoring, cleaning up, removing, containing, treating, detoxifying or neutralizing, or in any way responding to, or assessing the effects of pollutants.

Pollutants means any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals and waste. Waste includes materials to be recycled, reconditioned or reclaimed.

g. "Bodily injury" or "property damage" arising out of the ownership, maintenance, use or entrustment to others of any aircraft, "auto" or watercraft owned or operated by or rented or loaned to any insured. Use includes operation and "loading or unloading."

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This exclusion does not apply to:

(1) A watercraft while ashore on premises you own or rent;

(2) A watercraft you do not own that is:

(a) Less than 26 feet long; and

(b) Not being used to carry persons or property for a charge;

(3) Parking an "auto" on, or on the ways next to, premises you own or rent, provided the "auto" is not owned by or rented or loaned to you or the insured;

(4) Liability assumed under any "insured contract" for the ownership, maintenance or use of aircraft or watercraft; or

(5) "Bodily injury" or "property damage" arising out of the operation of any of the equipment listed in paragraph f.(2) or f.(3) of the definition of "mobile equipment" (Section V.8.).

h. "Bodily injury" or "property damage" arising out of:

(1) The transportation of "mobile equipment" by an "auto" owned or operated by or rented or loaned to any insured; or

(2) The use of "mobile equipment" in, or while in practice or preparation for, a prearranged racing, speed or demolition contest or in any stunting activity.

i. "Bodily injury" or "property damage" due to war, whether or not declared, or any act or condition incident to war. War includes civil war, insurrection, rebellion or revolution. This exclusion applies only to liability assumed under a contract or agreement.

j. "Property damage" to:

(1) Property you own, rent, or occupy;

(2) Premises you sell, give away or abandon, if the "property damage" arises out of any part of those premises;

(3) Property loaned to you;

(4) Personal property in the care, custody or control of the insured;

(5) That particular part of real property on which you or any contractors or subcontractors working directly or indirectly on your behalf are performing operations, if the "property damage" arises out of those operations; or

(6) That particular part of any property that must be restored, repaired or replaced because "your work" was incorrectly performed on it.

Paragraph (2) of this exclusion does not apply if the premises are "your work" and were never occupied, rented or held for rental by you.

Paragraphs (3), (4), (5) and (6) of this exclusion do not apply to liability assumed under a sidetrack agreement.

Paragraph (6) of this exclusion does not apply to "property damage" included in the "products-completed operations hazard."

k. "Property damage" to "your product" arising out of it or any part of it.

l. "Property damage" to "your work" arising out of it or any part of it and included in the "products-completed operations hazard."

This exclusion does not apply if the damaged work or the work out of which the damage arises was performed on your behalf by a subcontractor.

m. "Property damage" to "impaired property" or property that has not been physically injured, arising out of:

(1) A defect, deficiency, inadequacy or dangerous condition in "your product" or "your work;" or

(2) A delay or failure by you or anyone acting on your behalf to perform a contract or agreement in accordance with its terms.

This exclusion does not apply to the loss of use of other property arising out of sudden and accidental physical injury to "your product" or "your work" after it has been put to its intended use.

n. Damages claimed for any loss, cost or expense incurred by you or others for the loss of use, withdrawal, recall, inspection, repair, replacement, adjustment, removal or disposal of:

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(1) "Your product;"

(2) "Your work;" or

(3) "Impaired property;"

if such product, work, or property is withdrawn or recalled from the market or from use by any person or organization because of a known or suspected defect, deficiency, inadequacy or dangerous condition in it.

Exclusions c. through n. do not apply to damage by fire to premises rented to you. A separate limit of insurance applies to this coverage as described in LIMITS OF INSURANCE (SECTION III).

COVERAGE B. PERSONAL AND ADVERTISING INJURY LIABILITY

1. Insuring Agreement.

a. We will pay those sums that the insured becomes legally obligated to pay as damages because of "personal injury" or "advertising injury" to which this coverage part applies. We will have the right and duty to defend any "suit" seeking those damages. We may at our discretion investigate any "occurrence" or offense and settle any claim or "suit" that may result. But:

(1) The amount we will pay for damages is limited as described in LIMITS OF INSURANCE (SECTION III); and

(2) Our right and duty to defend end when we have used up the applicable limit of insurance in the payment of judgments or settlements under Coverage A or B or medical expenses under Coverage C.

No other obligation or liability to pay sums or perform acts or services is covered unless explicitly provided for under SUPPLEMENTARY PAYMENTS - COVERAGES A AND B.

b. This insurance applies to:

(1) "Personal injury" caused by an offense arising out of your business, excluding advertising, publishing, broadcasting or telecasting done by or for you;

(2) "Advertising injury" caused by an offense committed in the course of advertising your goods, products or services;

but only if the offense was committed in the "coverage territory" during the policy period.

2. Exclusions.

This insurance does not apply to:

a. "Personal injury" or "advertising injury:"

(1) Arising out of oral or written publication of material, if done by or at the direction of the insured with knowledge of its falsity;

(2) Arising out of oral or written publication of material whose first publication took place before the beginning of the policy period;

(3) Arising out of the willful violation of a penal statute or ordinance committed by or with the consent of the insured; or

(4) For which the insured has assumed liability in a contract or agreement. This exclusion does not apply to liability for damages that the insured would have in the absence of the contract or agreement.

b. "Advertising injury" arising out of:

(1) Breach of contract, other than misappropriation of advertising ideas under an implied contract;

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(2) The failure of goods, products or services to conform with advertised quality or performance;

(3) The wrong description of the price of goods, products or services; or

(4) An offense committed by an insured whose business is advertising, broadcasting, publishing or telecasting.

COVERAGE C. MEDICAL PAYMENTS

1. Insuring Agreement.

a. We will pay medical expenses as described below for "bodily injury" caused by an accident:

(1) On premises you own or rent;

(2) On ways next to premises you own or rent; or

(3) Because of your operations;

provided that:

(1) The accident takes place in the "coverage territory" and during the policy period;

(2) The expenses are incurred and reported to us within one year of the date of the accident; and

(3) The injured person submits to examination, at our expense, by physicians of our choice as often as we reasonably require.

b. We will make these payments regardless of fault. These payments will not exceed the applicable limit of insurance. We will pay reasonable expenses for:

(1) First aid at the time of an accident;

(2) Necessary medical, surgical, x-ray and dental services, including prosthetic devices; and

(3) Necessary ambulance, hospital, professional nursing and funeral services.

2. Exclusions.

We will not pay expenses for "bodily injury:"

a. To any insured.

b. To a person hired to do work for or on behalf of any insured or a tenant of any insured. .

c. To a person injured on that part of premises you own or rent that the person normally occupies.

d. To a person, whether or not an employee of any insured, if benefits for the "bodily injury" are payable or must be provided under a workers' compensation or disability benefits law or a similar law.

e. To a person injured while taking part in athletics.

f. Included within the "products-completed operations hazard."

g. Excluded under Coverage A.

h. Due to war, whether or not declared, or any act or condition incident to war. War includes civil war, insurrection, rebellion or revolution.

SUPPLEMENTARY PAYMENTS - COVERAGES A AND B

We will pay, with respect to any claim or "suit" we defend:

1. All expenses we incur.

2. Up to $250 for cost of bail bonds required because of accidents or traffic law violations arising out of the use of any vehicle to which the Bodily Injury Liability Coverage applies. We do not have to furnish these bonds.

3. The cost of bonds to release attachments, but only for bond amounts within the applicable limit of insurance. We do not have to furnish these bonds.

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4. All reasonable expenses incurred by the insured at our request to assist us in the investigation or defense of the claim or "suit," including actual loss of earnings up to $100 a day because of time off from work.
5. All costs taxed against the insured in the "suit."
6. Prejudgment interest awarded against the insured on that part of the judgment we pay. If we make an offer to pay the applicable limit of insurance, we will not pay any prejudgment interest based on that period of time after the offer.
7. All interest on the full amount of any judgment that accrues after entry of the judgment and before we have paid, offered to pay, or deposited in court the part of the judgment that is within the applicable limit of insurance.

These payments will not reduce the limits of insurance.

SECTION II - WHO IS AN INSURED

1. If you are designated in the Declarations as:
   a. An individual, you and your spouse are insureds, but only with respect to the conduct of a business of which you are the sole owner.
   b. A partnership or joint venture, you are an insured. Your members, your partners, and their spouses are also insureds, but only with respect to the conduct of your business.
   c. An organization other than a partnership or joint venture, you are an insured. Your executive officers and directors are insureds, but only with respect to their duties as your officers or directors. Your stockholders are also insureds, but only with respect to their liability as stockholders.
2. Each of the following is also an insured:
   a. Your employees, other than your executive officers, but only for acts within the scope of their employment by you. However, no employee is an insured for:
      (1) "Bodily injury" or "personal injury" to you or to a co-employee while in the course of his or her employment, or the spouse, child, parent, brother or sister of that co-employee as a consequence of such "bodily injury" or "personal injury," or for any obligation to share damages with or repay someone else who must pay damages because of the injury; or
      (2) "Bodily injury" or "personal injury" arising out of his or her providing or failing to provide professional health care services; or
      (3) "Property damage" to property owned or occupied by or rented or loaned to that employee, any of your other employees, or any of your partners or members (if you are a partnership or joint venture).
   b. Any person (other than your employee), or any organization while acting as your real estate manager.
   c. Any person or organization having proper temporary custody of your property if you die, but only:
      (1) With respect to liability arising out of the maintenance or use of that property; and
      (2) Until your legal representative has been appointed.
   d. Your legal representative if you die, but only with respect to duties as such. That representative will have all your rights and duties under this Coverage Part.
3. With respect to "mobile equipment" registered in your name under any motor vehicle registration law, any person is an insured while driving such equipment along a public highway with your permission. Any other person or organization responsible for the conduct of such person is also an insured, but only with respect to liability arising out of the operation of the equipment, and only if no other insurance of any kind is available to that person or organization for this liability. However, no person or organization is an insured with respect to:
   a. "Bodily injury" to a co-employee of the person driving the equipment; or
   b. "Property damage" to property owned by, rented to, in the charge of or occupied by you or the employer of any person who is an insured under this provision.
4. Any organization you newly acquire or form, other than a partnership or joint venture, and over which you maintain ownership or majority interest, will qualify as a Named Insured if there is no other similar insurance available to that organization. However:
   a. Coverage under this provision is afforded only until the 90th day after you acquire or form the organization or the end of the policy period, whichever is earlier,

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b. Coverage A does not apply to "bodily injury" or "property damage" that occurred before you acquired or formed the organization; and

c. Coverage B does not apply to "personal injury" or "advertising injury" arising out of an offense committed before you acquired or formed the organization.

No person or organization is an insured with respect to the conduct of any current or past partnership or joint venture that is not shown as a Named Insured in the Declarations.

SECTION III - LIMITS OF INSURANCE

1. The Limits of Insurance shown in the Declarations and the rules below fix the most we will pay regardless of the number of:
   a. Insureds;
   b. Claims made or "suits" brought; or
   c. Persons or organizations making claims or bringing "suits."
2. The General Aggregate Limit is the most we will pay for the sum of:
   a. Medical expenses under Coverage C;
   b. Damages under Coverage A, except damages because of "bodily injury" or "property damage" included in the "products-completed operations hazard;" and
   c. Damages under Coverage B.
3. The Products-Completed Operations Aggregate Limit is the most we will pay under Coverage A for damages because of "bodily injury" and "property damage" included in the "products-completed operations hazard."
4. Subject to 2. above, the Personal and Advertising Injury Limit is the most we will pay under Coverage B for the sum of all damages because of all "personal injury" and all "advertising injury" sustained by any one person or organization.
5. Subject to 2. or 3. above, whichever applies, the Each Occurrence Limit is the most we will pay for the sum of:
   a. Damages under Coverage A; and
   b. Medical expenses under Coverage C

   because of all "bodily injury" and "property damage" arising out of any one "occurrence."
6. Subject to 5. above, the Fire Damage Limit is the most we will pay under Coverage A for damages because of "property damage" to premises rented to you arising out of any one fire.
7. Subject to 5. above, the Medical Expense Limit is the most we will pay under Coverage C for all medical expenses because of "bodily injury" sustained by any one person.

The limits of this Coverage Part apply separately to each consecutive annual period and to any remaining period of less than 12 months, starting with the beginning of the policy period shown in the Declarations, unless the policy period is extended after issuance for an additional period of less than 12 months. In that case, the additional period will be deemed part of the last preceding period for purposes of determining the Limits of Insurance.

SECTION IV - COMMERCIAL GENERAL LIABILITY CONDITIONS

1. **Bankruptcy.**

   Bankruptcy or insolvency of the insured or of the insured's estate will not relieve us of our obligations under this Coverage Part.

2. **Duties In The Event Of Occurrence, Claim Or Suit.**
   a. You must see to it that we are notified as soon as practicable of an "occurrence" or an offense which may result in a claim. To the extent possible, notice should include:
      (1) How, when and where the "occurrence" or offense took place;
      (2) The names and addresses of any injured persons and witnesses; and
      (3) The nature and location of any injury or damage arising out of the "occurrence" or offense.
   b. If a claim is made or "suit" is brought against any insured, you must:
      (1) Immediately record the specifics of the claim or "suit" and the date received; and
      (2) Notify us as soon as practicable.

      You must see to it that we receive written notice of the claim or "suit" as soon as practicable.

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c. You and any other involved insured must:

(1) Immediately send us copies of any demands, notices, summonses or legal papers received in connection with the claim or "suit;"

(2) Authorize us to obtain records and other information;

(3) Cooperate with us in the investigation, settlement or defense of the claim or "suit;" and

(4) Assist us, upon our request, in the enforcement of any right against any person or organization which may be liable to the insured because of injury or damage to which this insurance may also apply.

d. No insureds will, except at their own cost, voluntarily make a payment, assume any obligation, or incur any expense, other than for first aid, without our consent.

3. Legal Action Against Us.

No person or organization has a right under this Coverage Part:

a. To join us as a party or otherwise bring us into a "suit" asking for damages from an insured; or

b. To sue us on this Coverage Part unless all of its terms have been fully complied with.

A person or organization may sue us to recover on an agreed settlement or on a final judgment against an insured obtained after an actual trial; but we will not be liable for damages that are not payable under the terms of this Coverage Part or that are in excess of the applicable limit of insurance. An agreed settlement means a settlement and release of liability signed by us, the insured and the claimant or the claimant's legal representative.

4. Other Insurance.

If other valid and collectible insurance is available to the insured for a loss we cover under Coverages A or B of this Coverage Part, our obligations are limited as follows:

a. Primary Insurance

This insurance is primary except when b. below applies. If this insurance is primary, our obligations are not affected unless any of the other insurance is also primary. Then, we will share with all that other insurance by the method described in c. below.

b. Excess Insurance

This insurance is excess over any of the other insurance, whether primary, excess, contingent or on any other basis:

(1) That is Fire, Extended Coverage, Builder's Risk, Installation Risk or similar coverage for "your work;"

(2) That is Fire insurance for premises rented to you; or

(3) If the loss arises out of the maintenance or use of aircraft, "autos" or watercraft to the extent not subject to Exclusion g. of Coverage A (Section I).

When this insurance is excess, we will have no duty under Coverage A or B to defend any claim or "suit" that any other insurer has a duty to defend. If no other insurer defends, we will undertake to do so, but we will be entitled to the insured's rights against all those other insurers.

When this insurance is excess over other insurance, we will pay only our share of the amount of the loss, if any, that exceeds the sum of:

(1) The total amount that all such other insurance would pay for the loss in the absence of this insurance; and

(2) The total of all deductible and self-insured amounts under all that other insurance.

We will share the remaining loss, if any, with any other insurance that is not described in this Excess Insurance provision and was not bought specifically to apply in excess of the Limits of Insurance shown in the Declarations of this Coverage Part.

c. Method of Sharing

If all of the other insurance permits contribution by equal shares, we will follow this method also. Under this approach each insurer contributes equal amounts until it has paid its applicable limit of insurance or none of the loss remains, whichever comes first.

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If any of the other insurance does not permit contribution by equal shares, we will contribute by limits. Under this method, each insurer's share is based on the ratio of its applicable limit of insurance to the total applicable limits of insurance of all insurers.

5. Premium Audit.

a. We will compute all premiums for this Coverage Part in accordance with our rules and rates.

b. Premium shown in this Coverage Part as advance premium is a deposit premium only. At the close of each audit period we will compute the earned premium for that period. Audit premiums are due and payable on notice to the first Named Insured. If the sum of the advance and audit premiums paid for the policy term is greater than the earned premium, we will return the excess to the first Named Insured.

c. The first Named Insured must keep records of the information we need for premium computation, and send us copies at such times as we may request.

6. Representations.

By accepting this policy, you agree:

a. The statements in the Declarations are accurate and complete;

b. Those statements are based upon representations you made to us; and

c. We have issued this policy in reliance upon your representations.

7. Separation Of Insureds.

Except with respect to the Limits of Insurance, and any rights or duties specifically assigned in this Coverage Part to the first Named Insured, this insurance applies:

a. As if each Named Insured were the only Named Insured; and

b. Separately to each insured against whom claim is made or "suit" is brought.

8. Transfer Of Rights Of Recovery Against Others To Us.

If the insured has rights to recover all or part of any payment we have made under this Coverage Part, those rights are transferred to us. The insured must do nothing after loss to impair them. At our request, the insured will bring "suit" or transfer those rights to us and help us enforce them.

9. When We Do Not Renew.

If we decide not to renew this Coverage Part, we will mail or deliver to the first Named Insured shown in the Declarations written notice of the nonrenewal not less than 30 days before the expiration date.

If notice is mailed, proof of mailing will be sufficient proof of notice.

SECTION V - DEFINITIONS

1. "Advertising injury" means injury arising out of one or more of the following offenses:

   a. Oral or written publication of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services;

   b. Oral or written publication of material that violates a person's right of privacy;

   c. Misappropriation of advertising ideas or style of doing business; or

   d. Infringement of copyright, title or slogan.

2. "Auto" means a land motor vehicle, trailer or semitrailer designed for travel on public roads, including any attached machinery or equipment. But "auto" does not include "mobile equipment."

3. "Bodily injury" means bodily injury, sickness or disease sustained by a person, including death resulting from any of these at any time.

4. "Coverage territory" means:

   a. The United States of America (including its territories and possessions), Puerto Rico and Canada;

   b. International waters or airspace, provided the injury or damage does not occur in the course of travel or transportation to or from any place not included in a. above; or

   c. All parts of the world if:

      (1) The injury or damage arises out of:

         (a) Goods or products made or sold by you in the territory described in a. above; or

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(b) The activities of a person whose home is in the territory described in a. above, but is away for a short time on your business; and

(2) The insured's responsibility to pay damages is determined in a "suit" on the merits, in the territory described in a. above or in a settlement we agree to.

5. "Impaired property" means tangible property, other than "your product" or "your work," that cannot be used or is less useful because:

a. It incorporates "your product" or "your work" that is known or thought to be defective, deficient, inadequate or dangerous; or

b. You have failed to fulfill the terms of a contract or agreement;

if such property can be restored to use by:

a. The repair, replacement, adjustment or removal of "your product" or "your work;" or

b. Your fulfilling the terms of the contract or agreement.

6. "Insured contract" means:

a. A lease of premises;

b. A sidetrack agreement;

c. Any easement or license agreement, except in connection with construction or demolition operations on or within 50 feet of a railroad;

d. An obligation, as required by ordinance, to indemnify a municipality, except in connection with work for a municipality;

e. An elevator maintenance agreement;

f. That part of any other contract or agreement pertaining to your business (including an indemnification of a municipality in connection with work performed for a municipality) under which you assume the tort liability of another party to pay for "bodily injury" or "property damage" to a third person or organization. Tort liability means a liability that would be imposed by law in the absence of any contract or agreement.

An "insured contract" does not include that part of any contract or agreement:

a. That indemnifies any person or organization for "bodily injury" or "property damage" arising out of construction or demolition operations, within 50 feet of any railroad property and affecting any railroad bridge or trestle, tracks, road-beds, tunnel, underpass or crossing;

b. That indemnifies an architect, engineer or surveyor for injury or damage arising out of:

(1) Preparing, approving or failing to prepare or approve maps, drawings, opinions, reports, surveys, change orders, designs or specifications; or

(2) Giving directions or instructions, or failing to give them, if that is the primary cause of the injury or damage;

c. Under which the insured, if an architect, engineer or surveyor, assumes liability for an injury or damage arising out of the insured's rendering or failure to render professional services, including those listed in b. above and supervisory, inspection or engineering services; or

d. That indemnifies any person or organization for damage by fire to premises rented or loaned to you.

7. "Loading or unloading" means the handling of property:

a. After it is moved from the place where it is accepted for movement into or onto an aircraft, watercraft or "auto;"

b. While it is in or on an aircraft, watercraft or "auto;" or

c. While it is being moved from an aircraft, watercraft or "auto" to the place where it is finally delivered;

but "loading or unloading" does not include the movement of property by means of a mechanical device, other than a hand truck, that is not attached to the aircraft, watercraft or "auto."

8. "Mobile equipment" means any of the following types of land vehicles, including any attached machinery or equipment:

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a. Bulldozers, farm machinery, forklifts and other vehicles designed for use principally off public roads;

b. Vehicles maintained for use solely on or next to premises you own or rent;

c. Vehicles that travel on crawler treads;

d. Vehicles, whether self-propelled or not, maintained primarily to provide mobility to permanently mounted:

(1) Power cranes, shovels, loaders, diggers or drills; or

(2) Road construction or resurfacing equipment such as graders, scrapers or rollers;

e. Vehicles not described in a., b., c. or d. above that are not self-propelled and are maintained primarily to provide mobility to permanently attached equipment of the following types:

(1) Air compressors, pumps and generators, including spraying, welding, building cleaning, geophysical exploration, lighting and well servicing equipment; or

(2) Cherry pickers and similar devices used to raise or lower workers;

f. Vehicles not described in a., b., c. or d. above maintained primarily for purposes other than the transportation of persons or cargo.

However, self-propelled vehicles with the following types of permanently attached equipment are not "mobile equipment" but will be considered "autos:"

(1) Equipment designed primarily for:

(a) Snow removal;

(b) Road maintenance, but not construction or resurfacing;

(c) Street cleaning;

(2) Cherry pickers and similar devices mounted on automobile or truck chassis and used to raise or lower workers; and

(3) Air compressors, pumps and generators, including spraying, welding, building cleaning, geophysical exploration, lighting and well servicing equipment.

9. "Occurrence" means an accident, including continuous or repeated exposure to substantially the same general harmful conditions.

10. "Personal injury" means injury, other than "bodily injury," arising out of one or more of the following offenses:

a. False arrest, detention or imprisonment;

b. Malicious prosecution;

c. The wrongful eviction from, wrongful entry into, or invasion of the right of private occupancy of a room, dwelling or premises that a person occupies by or on behalf of its owner, landlord or lessor;

d. Oral or written publication of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services; or

e. Oral or written publication of material that violates a person's right of privacy.

11.a. "Products-completed operations hazard" includes all "bodily injury" and "property damage" occurring away from premises you own or rent and arising out of "your product" or "your work" except:

(1) Products that are still in your physical possession; or

(2) Work that has not yet been completed or abandoned.

b. "Your work" will be deemed completed at the earliest of the following times:

(1) When all of the work called for in your contract has been completed.

(2) When all of the work to be done at the site has been completed if your contract calls for work at more than one site.

(3) When that part of the work done at a job site has been put to its intended use by any person or organization other than another contractor or subcontractor working on the same project.

Work that may need service, maintenance, correction, repair or replacement, but which is otherwise complete, will be treated as completed.

c. This hazard does not include "bodily injury" or "property damage" arising out of:

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(1) The transportation of property, unless the injury or damage arises out of a condition in or on a vehicle created by the "loading or unloading" of it;

(2) The existence of tools, uninstalled equipment or abandoned or unused materials;

(3) Products or operations for which the classification in this Coverage Part or in our manual of rules includes products or completed operations.

12. "Property damage" means:

a. Physical injury to tangible property, including all resulting loss of use of that property. All such loss of use shall be deemed to occur at the time of the physical injury that caused it; or

b. Loss of use of tangible property that is not physically injured. All such loss shall be deemed to occur at the time of the "occurrence" that caused it.

13. "Suit" means a civil proceeding in which damage because of "bodily injury," "property damage," "personal injury" or "advertising injury" to which this insurance applies are alleged. "Suit" includes:

a. An arbitration proceeding in which such damages are claimed and to which you must submit or do submit with our consent; or

b. Any other alternative dispute resolution proceeding in which such damages are claimed and to which you submit with our consent.

14. "Your product" means:

a. Any goods or products, other than real property, manufactured, sold, handled, distributed or disposed of by:

(1) You;

(2) Others trading under your name; or

(3) A person or organization whose business or assets you have acquired; and

b. Containers (other than vehicles), materials, parts or equipment furnished in connection with such goods or products.

"Your product" includes:

a. Warranties or representations made at any time with respect to the fitness, quality, durability, performance or use of "your product;" and

b. The providing of or failure to provide warnings or instructions.

"Your product" does not include vending machines or other property rented to or located for the use of others but not sold.

15. "Your work" means:

a. Work or operations performed by you or on your behalf; and

b. Materials, parts or equipment furnished in connection with such work or operations.

"Your work" includes:

a. Warranties or representations made at any time with respect to the fitness, quality, durability, performance or use of "your work;" and

b. The providing of or failure to provide warnings or instructions.

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THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

ADDITIONAL INSURED—VOLUNTEERS

This endorsement modifies insurance provided under the following:

COMMERCIAL GENERAL LIABILITY COVERAGE PART.

WHO IS AN INSURED (Section II) is amended to include as an insured any person(s) who are volunteer worker(s) for you, but only while acting at the direction of, and within the scope of their duties for you. However, no volunteer(s) are insureds for:

1. "Bodily injury" to:
   a. Co-volunteers or your employees arising out of and in the course of their duties for you, or
   b. You or, if you are a partnership or joint venture, any partner or member;
2. "Property damage" to property owned, occupied or used by, rented to, in the care, custody, or control of, or over which physical control is being exercised for any purpose by:
   a. A co-volunteer or your employee; or
   b. You or, if you are a partnership or joint venture, any partner or member.

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EMPLOYMENT-RELATED PRACTICES EXCLUSION

This endorsement modifies insurance provided under the following:

COMMERCIAL GENERAL LIABILITY COVERAGE PART

1. The following exclusion is added to COVERAGE A (Section I):

   a. "Bodily injury" arising out of any:

      (1) Refusal to employ;

      (2) Termination of employment;

      (3) Coercion, demotion, evaluation, reassignment, discipline, defamation, harassment, humiliation, discrimination or other employment-related practices, policies, acts or omissions; or

      (4) Consequential "bodily injury" as a result of (1) through (3) above.

   This exclusion applies whether the insured may be held liable as an employer or in any other capacity and to any obligation to share damages with or to repay someone else who must pay damages because of the injury.

2. The following exclusion is added to COVERAGE B (Section I):

   c. "Personal injury" arising out of any:

      (1) Refusal to employ;

      (2) Termination of employment;

      (3) Coercion, demotion, evaluation, reassignment, discipline, defamation, harassment, humiliation, discrimination or other employment-related practices, policies, acts or omissions; or

      (4) Consequential "personal injury" as a result of (1) through (3) above.

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THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

EMPLOYEE BENEFIT LIABILITY
COVERAGE E

SCHEDULE OF LIMITS — COVERAGE E

$ 300,000.00 each claim $ 300,000.00 annual aggregate

$1,000 deductible each claim

For payment of a premium, in reliance upon the statements in the Application and subject to all the provisions of the policy not expressly modified herein, we agree with you as follows:

I. **COVERAGE E** is added to SECTION I — COVERAGES as follows:

COVERAGE E — EMPLOYEE BENEFIT LIABILITY

1. **Insuring Agreement**
   We will pay on your behalf all sums which you become legally obligated to pay as damages on account of any claim made against you by any employee, former employee or the beneficiaries or legal representatives thereof for injury caused by any negligent act, error or omission of you or of any other person for whose acts, errors or omissions you are legally liable, in the administration of employee benefit programs, and we have the right and duty to defend any suit against you seeking such damages, even if any of the allegations of the suit are groundless, false or fraudulent, and may make such investigation, and with your written consent, such settlement of any claim or suit as we deem expedient, but we shall not be obligated to pay any claim or judgment or to defend any suit after the applicable limit of our liability has been exhausted by payment of judgments or settlements.

2. **Exclusions**

   This insurance does not apply to:

   a. any dishonest, intentionally fraudulent, criminal, or malicious act or omission, or to libel, slander, discrimination or humiliation;

   b. "bodily injury" or "property damage";

   c. any claim resulting from intentional failure of performance of contract by an insurer;

   d. any claim resulting from your intentional violation of any law concerning Worker's Compensation, Unemployment Insurance, social security, disability benefits or any similar law;

   e. any claim based upon (1) failure of investment plans to perform as represented by you, or (2) advice given by you to an employee to participate or not to participate in stock subscription plans, or (3) the appointment of, or the failure to appoint, any investment manager, administrator, trustee, actuary, advisor, counsel, accountant, custodian, or consultant;

   f. claims resulting from the failure to provide benefits because they are not properly funded or an insurance company's failure to comply with the terms of its policy;

   g. claims resulting from the investment or non-investment of employee benefit funds;

   h. claims resulting from the termination of any employee benefit plan; or

   i. fines, taxes or penalties imposed by law or other matters which may be uninsurable under law.

   j. any claim to the extent that recovery could not have been attained upon such claim in an action at law prior to the effective date of the Employee Retirement Income Security Act of 1974 (ERISA).

II. **WHO IS AN INSURED — COVERAGE E**

SECTION II — WHO IS AN INSURED — Parts 1 and 2 are deleted and replaced by the following:

Each of the following is an insured, with respect to the administration of the employee benefit program for your business, to the extent set out below:

1. If you are designated in the Declarations as:

   a. An individual, you are an insured, but only with respect to the conduct of a business of which you are the sole owner.

   b. A partnership or joint venture, you are an insured. Your members and your partners are also insureds, but only with respect to the conduct of your business.

c. An organization other than a partnership or joint venture, you are an insured. Your executive officers and directors are insureds, but only with respect to their duties as your officers and directors. Your stockholders are also insureds, but only with respect to their liability as stockholders.

2. Your employees that you have authorized to administer your benefit programs, but only for acts within the scope of their authorized duties.

III. LIMITS OF INSURANCE, DEDUCTIBLE — COVERAGE E

SECTION III — LIMITS OF INSURANCE is deleted and replaced by the following:

Regardless of the number of insureds under this policy, our liability under this form is limited as follows:

1. The limit of liability stated in the schedule for Coverage E as applicable to "each claim" is the limit of liability for all damages because of each claim or suit covered under this form. The limit of liability stated in the schedule as "annual aggregate" is, subject to the above provision respecting "each claim", the total limit of our liability under this form for all damages.
2. Our obligation to pay damages on your behalf applies only to damages in excess of a deductible amount of $1,000 applicable to "each claim".
3. The terms of the policy, including those with respect to (a) our rights and duties with respect to the defense of suits and (b) your duties in the event of an act, error or omission apply irrespective of the application of the deductible amount.
4. If we pay any part or all of the deductible amount to effect settlement of any claim or suit, you will reimburse us therefore.

IV. COMMERCIAL GENERAL LIABILITY CONDITIONS — COVERAGE E

The following additional condition is added to Section IV, paragraph 2.

e. Your Duties in the Event of Act, Error or Omission.

When you become aware of an act, error or omission which may give rise to a claim under this insurance, written notice shall be given by or on behalf of you, in accordance with the "Insured's Duties in the event of Occurrence, Claim or Suit" Condition.

V. DEFINITIONS — COVERAGE E

When used in reference to this form, the following additional definitions apply:

16. "Employee benefit programs" means group life insurance, group accident or health insurance, profit sharing plans, pension plans, employee stock subscription plans, worker's compensation insurance, unemployment compensation, social security and disability benefits insurance, and travel, savings or vacation plans.
17. "Administration" means:
    a. giving counsel to employees with respect to the employee benefit programs,
    b. interpreting the employee benefit programs,
    c. the handling of records in connection with the employee benefit programs, and
    d. effecting enrollment, termination or cancellation of employees under the employee benefit programs provided all such acts are authorized by you.

VI. ADDITIONAL PROVISIONS — COVERAGE E

This insurance applies only to claims made against you within the policy territory,

a. during the policy period provided at the effective date of this insurance you had no knowledge of or could not have reasonably foreseen any circumstances which might result in such claim;
b. after the expiration of the policy period provided,
    (1) the act, error or omission from which the claim results occurs during the policy period, and
    (2) you give us written notice of such act, error or omission during the policy period.

Attachment 4

Sample School Board Legal Liability Policy

LINEBACKER$_{SM}$ COVERAGE FORM

This is a Claims Made Policy. Please Read Carefully.

Various provisions in this policy restrict coverage. Read the entire policy carefully to determine rights, duties and what is and is not covered.

Throughout this policy the words "you" and "your" refer to the Named Insured shown in the Declarations, and any other person or organization qualifying as a Named Insured under this policy. The words "we", "us" and "our" refer to the company providing this insurance.

Other words and phrases that appear in quotation marks have special meaning. Refer to DEFINITIONS (PART II).

PART I — COVERAGE

A. **Agreement**

We will pay "Loss" and/or "Defense Expenses" to which this insurance applies excess of the deductible stated in the Declarations, provided that:

1. The "wrongful act" on which the claim is based occurs on or after the "retroactive date" shown in the Declarations and not after the end of the policy period; and
2. The claim is first made against any past, present or future "insured":
   a. during the policy period, or
   b. if Extended Reporting Period applies, during that period (see Section F).

B. **Coverage Activation**

A claim will be deemed to have been made at the earliest of the following times:

1. When a claim is received by any "insured";
2. When a claim is received by us, or
3. When you become aware of a "wrongful act" which may subsequently give rise to a claim being made against you, and you give written notice to us of such circumstances as soon as practicable but no later than:
   a. the end of the Policy Period; or
   b. if Extended Reporting Period applies, the end of the Extended Reporting Period.

C. **Limits of Liability**

The limits of insurance shown in the Declarations and the rules below fix the most we will pay regardless of the number of:

1. "Insureds";
2. Claims made or "suits" brought; or
3. Persons or organizations making claims or bringing "suit".

The aggregate limit is the most we will pay for all claims made during the policy term or during any Extended Reporting Period, if applicable. However, if the Extended Reporting Coverage Endorsement is purchased providing Extended Reporting beyond the 30 day automatic Extended Reporting Period, a guaranteed minimum of 50% of the aggregate limit shown in the Declarations shall remain for claims reported during the Extended Reporting Period.

D. **Defense**

1. We have the right and duty to defend claims or "suits" against the "insured" seeking monetary damages covered under this policy and to pay the "defense expenses" with respect to any claim or "suit" we defend. This right and duty is limited. "Defense expenses" are paid in addition to our limit of liability. However this right and duty ends when the applicable limit of liability is exhausted.
2. Special defense obligations/provisions are created for certain types of claims or "suits". Those types are:
   a. Claims or "suits" covered by this policy not seeking monetary damages, or not seeking monetary damages other than plaintiff/claimant attorney's fees/expenses;
   b. Claims or "suits" we are obligated to defend by virtue of the applicability of "limited defense exclusions" provisions found in Part III.

   For these types of claims or suits, the following provisions apply:
   a. we will pay 85% of the "defense" expense incurred less the deductible amount. You will be responsible for the deductible and copayment. See **PART IV — CONDITIONS** Section D. **Deductible/Copayment Provision**.
   b. our payment of "defense expense" will not exceed the each "loss" limit of liability shown in the Declarations;
   c. our obligation to pay further "defense expense" or other claim expense ends after the first judgment has been entered except for appeals of such judgment made by the claimant.
3. With respect to either 1. or 2. above
   a. "defense expenses" are subject to the deductible.
   b. our duty to pay "defense expenses" begins only after we are notified of a claim or "suit". Any previous expenses are not covered and will not apply with respect to your deductible obligations. (See Condition A, Your Duties in the Event of "Loss".)

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E. **Supplementary Payments and Plaintiff/Claimant Attorney's Fees and Expenses**

1. We will pay in addition to our limit of liability with respect to any claim or "suit" we defend:
   a. All expenses we incur.
   b. Premiums on bonds required of an "Insured" to release attachments because of the "suit" but the bond amounts shall not exceed our liability limit. We are not required to apply for or furnish any bonds.
   c. All costs taxed against an "Insured" in the suit except for plaintiff/claimant attorney's fees/expenses.
   d. Pre-judgment interest awarded against the "insured" on that part of the judgment we pay.

      If we make an offer to pay the applicable limit of insurance, we will not pay any pre-judgment interest based on that period of time after the offer.
   e. Interest which accumulates after a judgment is entered. Our duty to pay interest ends when we pay, offer to pay or deposit in court that part of the judgment which this policy covers.
   f. Reasonable expenses an "Insured" incurs at our request, other than loss of earnings.
2. With respect to any claim we defend under the provisions of D.1 above, we will pay 85% of plaintiff/claimant attorney's fees/expenses (if awarded in satisfaction of a claim) subject to the policy's limits of liability. i.e. This Item 2 plus any "loss" will not exceed the limits of liability shown in the Declarations. You will be responsible for the deductible and copayment. See **PART IV — CONDITIONS** Section D. **Deductible/Copayment Provision**.

F. **Extended Reporting**

1. We will provide an Extended Reporting Period only if:
   a. This Coverage Part is cancelled or not renewed for any reason except non-payment of the premium;
   b. We renew or replace this Coverage Part with other insurance that:
      (1) Provides claims-made coverage for "wrongful act" liability; and
      (2) Has a "Retroactive Date" later than the one shown in this Coverage Part's Declarations; or
   c. We replace this Coverage Part with other insurance that applies to "wrongful act" liability on other than a claims made basis.
2. If we provide Extended Reporting Period Coverage,
   a. A claim first made during the Extended Reporting Period will be deemed to have been made on the last day of the policy period provided that the claim is for damages because of a "wrongful act" that occurred before the end of the policy period of this policy (but not before any applicable "Retroactive Date").
   b. The Extended Reporting Period will not reinstate or increase the Limits of Insurance (except as provided under Part 1, Section C, with respect to aggregate limits) nor will it extend the policy period.
3. If we provide Extended Reporting Period Coverage the Extended Reporting Period will be as set forth in either a or b below:
   a. 30 days, starting with the end of the policy period, if no other insurance you purchase to replace this coverage form applies to the claim or would apply but for the exhaustion of applicable limits of insurance. This Extended Reporting Period automatically applies in such case(s) and may not be cancelled.
   b. 12 months, starting with the end of the policy period if we issue an Extended Reporting Period Endorsement. We will issue that endorsement if a representative of the organization named in the Declarations:
      (1) makes a written request for it which we receive within 30 days after the end of the policy period; and
      (2) promptly pays the additional premium when due.

   The Extended Reporting Period Endorsement will not take effect unless the additional premium is paid when due. If that premium is paid when due, the endorsement may not be cancelled.
4. The premium for the Extended Reporting Period Endorsement will be 90% of the expiring annual premium.

PART II — DEFINITIONS

A. "Bodily Injury" means bodily injury, sickness or disease sustained by a person, including death resulting from any of these at any time.

B. "Defense Expenses" are sums payable to others for investigation, litigation, negotiation, or settlement of any claim or "suit" which we deem expedient. "Defense expenses" do not include our own internal company claim adjustment expenses, or any plaintiff/claimant attorney's fees/expenses.

C. "Insured" means:

1. The "organization(s)" named in the Declarations.
2. The governing board of the "organization" and each of its lawfully elected or appointed members.
3. Employees of the "organization" while acting within their scope of duties while conducting the business of the "organization".
4. Volunteer workers including student teachers while acting within their scope of duties.

"Insured" does not include any person working on retainer and/or as an independent contractor.

D. "Loss" means sums:

1. Which an "insured" is legally obligated to pay as compensatory damages, or
2. Which the "organization" may be required or permitted by law to pay as indemnity to an "insured" for compensatory damages

because of a "wrongful act".

"Loss" does not include:

1. fines or penalties imposed by law; or
2. salaries of your employees and office expenses incurred by you.

E. "Organization" means the entity named in the Declarations as the named "insured". It also includes subsidiary or ancillary authorities, committees or other boards if:

1. Members of the authority, committee or board are elected or appointed by the governing board of the "organization"; and
2. Not less than 75% of the operating budget is derived solely from the named "insured" "organization" and/or generated from the subsidiary or ancillary board's own operations;
3. The authority committee or board does not act autonomously. The authority committee or board must be operated by and under the jurisdiction of the named "insured" "organization";
4. Employees of the subsidiary or ancillary authority (if any) are covered by the named "insured" "organization's" workers compensation policy;
5. Operations of the subsidiary or ancillary authority (if any) are covered by the Commercial General Liability Policy written for the named insured "organization".

However, in no event will the "organization" include the following authorities, committees, or other boards unless specifically shown as a named "insured" in the Declarations:

a. Schools,
b. Airports,
c. Hospitals or nursing homes,
d. Housing authorities,
e. Transit authorities,
f. Gas or electrical utilities.

F. "Personal Injury" means:

1. Injury, other than "Bodily Injury", arising out of one or more of the following offenses:
   a. False arrest, detention or imprisonment;
   b. Malicious prosecution;
   c. Wrongful entry into, or eviction of a person from, a room, dwelling or premises that the person occupies;
   d. Oral or written publication of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services; or
   e. Oral or written publication of material that violates a person's right of privacy;
   f. Violation of constitutional/civil rights or improper service of process as it relates solely to the "organization's" law enforcement activities.
2. "Bodily Injury" arising while the insured:
   a. is attempting to make an arrest;
   b. is holding someone under arrest.

   except for "bodily injury" arising from the ownership, maintenance, use or entrustment to others of any motor vehicle designed for travel on public roads.

G. "Professional Services" means anyone employed or serving in any of the following professions while performing their duties as such:

1. The practice of medicine, such as (but not limited to) physician, surgeon, osteopath, chiropractor, anesthesiologist, dentist, psychiatrist, psychologist, nurse, paramedic, EMT, pharmacist, etc.;
2. The practice of law (including the judiciary);
3. The practice of accounting;
4. Architects, engineers, surveyors or draftsmen.

H. "Property Damage" means:

1. Physical injury to tangible property, including all resulting loss of use of that property, and
2. Loss of use of tangible property that is not physically injured.

"Property Damage" includes actual or alleged damages or diminution of property values including but not limited to those that arise from the "Insured" exercising or failing to exercise its power of eminent domain including:

a. Condemnation proceedings;
b. The "Insured" exercising its duties in a land use regulatory capacity (zoning, permitting, inverse condemnation, etc).

I. "Retroactive Date" means the date specified in the Declarations. Those wrongful acts that occur prior to the "Retroactive Date" are not covered by this policy.

J. "Suit" means any civil suit, and if the named "insured" "organization" is an elementary and/or high school, includes administrative suits before teacher practices review boards provided that such "suit" is not originated by an administrative official of the school district, while acting in that capacity.

K. "Wrongful Act" means any of the following:

1. Actual or alleged errors;
2. Misstatement or misleading statement;
3. Act or omission or neglect or breach of duty by an "insured";

in the discharge of "organizational" duties.

All wrongful acts contained within the same claim or "suit" shall be deemed one "wrongful act" and such interelated "wrongful acts" shall be deemed to occur at the time of the first "wrongful act".

PART III — EXCLUSIONS

There are two types of exclusions under this policy; "Absolute Exclusions" and "Limited Defense Exclusions".

"Absolute Exclusions" exclude coverage for "loss", "defense expense", supplementary payments and plaintiff/claimant attorney's fees/expenses. "Limited Defense Exclusions" exclude coverage for "loss", supplementary payments and plaintiff/claimant attorney's fees/expenses but such exclusions do not apply to "defense expense" (see section D. Defense, paragraph 2.)

* Where both an 'Absolute Exclusion" and a "Limited Defense Exclusion" apply, coverage for "defense expense" is deemed excluded and we do not have the duty to defend.

** Limited defense coverage does not apply if other insurance provides or pays for any part of your defense.

All exclusions in this policy are "Absolute Exclusions" except for exclusions L.3, M, N and P.

This policy does not apply to:

A. "Wrongful Acts" based upon or attributable to an "insured(s)" gaining any personal profit or advantage to which an "insured(s)" is not legally entitled.

B. The return of any remuneration paid to an "insured" if such payment is held by the courts to be in violation of the law.

C. Any action brought against an "insured" if by judgment or adjudication such action was based on a determination that acts of fraud or dishonesty were committed by the "insured".

D. Intentional illegal acts where:

1. Illegality was known prior to commitment of the act; or
2. Corrective steps were not taken after the illegality of the act was determined.

The "wrongful act" of any "insured" shall not be imputed to any other "insured" for the purpose of determining applicability of Exclusions C and D above.

E. Any action, error or omission on the part of any "insured" in:

1. Failing to effect or maintain,
2. Effecting or maintaining, or
3. Counseling with respect to

any insurance or bond.

F. "Bodily injury", except for "bodily injury" included in the definition of "Personal Injury".

G. "Property damage".

H. "Personal injury".

I. The rendering or failure to render "professional services " (even if unpaid) which may be incurred by

1. You,
2. One of your employees, or
3. Anyone else for whom you may be responsible.

J. "Wrongful acts" involving the "insured's"

1. Obligations or breach of fiduciary duties under the Employee Retirement Income Security Act (ERISA) of 1974, including subsequent amendments or any similar federal, state or local law or regulation;
2. Administration of any employee benefit plan.

K. Any liability, "Defense Expense", or other cost:

1. Arising out of the actual, alleged or threatened discharge, dispersal, release or escape of "pollutants"; or
2. Arising out of any governmental direction or request that any "Insured" test for, monitor, clean up, remove, contain, treat, detoxify or neutralize "pollutants"; or
3. For failure or refusal of an "insured" to comply with any federal, state, or local law or regulation as respects "pollutants".

"Pollutants" means any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, asbestos or any substance containing asbestos fibers, fumes, or any other airborn contaminants, acids, alkalis, sound, chemicals and waste. Waste includes material to be recycled, reconditioned or reclaimed.

L. "Wrongful" acts involving:

1. Amounts actually or allegedly due under the terms of a payment or performance contract;
2. Assumption of the liability of others in a contract or agreement;
3. Failure, refusal, or inability of the "insured" to enter into, renew or perform any contract or agreement (other than employment contracts or agreements);

M. Amounts for that part of any award or settlement which is or could be deemed to be compensation for loss of salary or fringe benefits.

N. Any expense for facilities, products or services normally provided or expected (by anyone) to be provided by the "organization".

- Any "wrongful act" involving an "insured's":
  1. Failure to comply with, or
  2. Attempting to comply with, or
  3. Compliance with

  the provisions of the National Flood Insurance Act of 1968 as amended or any similar federal, state or local laws.

  However, this Exclusion does not apply if the "insured" "organization" is a school.

  Any "wrongful act" of an "insured" in connection with:

  1. Any tax assessment or adjustments, or
  2. The collection, refund, disbursement or application of any taxes, or
  3. Failure to anticipate tax revenue shortfalls.
  4. Guarantees on bond issues.

  Any claim brought by any federal, state or local governmental regulatory body.

  Any claim brought by any present "insureds" (or anyone acting in concert with or at the suggestion of present "insureds") against any former "insureds".

  Any claim which is based upon, arising out of, in consequence of, or in any way including litigation that:

  1. has commenced, or
  2. is pending

  at the inception date of this policy regardless of "retroactive date" applicability or non-applicability.

RT IV — CONDITIONS

Your duties in the event of a "wrongful act" that may involve this policy

1. We or our agent must have prompt written notice from you or someone on your behalf of any "wrongful act" that may involve this policy. The notice should identify this policy and give us the facts of the "wrongful act" including names and addresses of claimants and witnesses.
2. If you receive "suit" papers, you agree to immediately furnish us with a copy as well as copies of any other papers pertinent to the "wrongful act".
3. You must authorize us to obtain needed records and other information.

   Co-payments are percentage amounts you are responsible for as provided for in the terms and conditions of this policy.
4. You further agree to cooperate with us in the defense of any "wrongful act" likely to involve this policy. You shall not, except at your own expense, voluntarily make any payment, assume any obligation, or incur any expense unless we provide written consent to do so.
5. You must assist us, upon our request, in the enforcement of any right against any person or organization which may be liable to you because of injury or damage to which this insurance may also apply.

B. **Transfer of Rights of Recovery Against Others to Us**

If an "insured" has rights to recover all or part of any payment we have made under this Coverage Form, those rights are transferred to us. The "insured" must do nothing after loss to impair them. At our request, the "insured" will bring "suit" or transfer those rights to us and help enforce them.

C. **Action Against Us**

No legal action may be brought against us unless:

1. You have complied with all the terms of the policy; and
2. The amount for which you are legally liable has been determined by court judgment; or
3. An agreement has been signed by you, us and the claimant.

D. **Deductible/Co-payment Provision**

The deductible is the amount shown in the Declarations and is the amount for which you are responsible. The deductible can be met either by "loss" or "defense expense" but it does not reduce the liability limits that are applicable.

"Co-payment" means any percentage amount you are responsible for (in addition to the deductible) e.g. the percentage of "defense expense" or claimant/plaintiff attorney's fees/expenses we are not responsible for in Section D and Section E of **PART I — COVERAGE**. "Co-payments" do not reduce the limits of liability that are applicable.

We may, or will if required by law, pay part or all of any deductible amount or "co-payment", if applicable, to effect settlement of any claim or "suit". Upon notice of our payment of a deductible or "co-payment" amount you shall promptly reimburse us for the part of the deductible or "co-payment" amount we paid.

E. **Bankruptcy**

If you become bankrupt or insolvent, we will still be responsible for our obligations under this policy.

F. **Representations**

By accepting this policy, you agree:

1. The statements in the Application are accurate and complete;
2. Those statements are based upon representations you made to us; and
3. We have issued this policy in reliance upon your representations.

G. **Other Insurance**

The coverage provided under this policy is excess over any other "loss" insurance or self insurance which covers any part of the "loss" except insurance written specifically as excess coverage over the limits of this policy.

H. **State Law**

If this policy conflicts with your state or local laws, it is changed to conform with the laws.

Attachment 5

Basics of Fidelity Bonding,
Article by Steven P. Kahn

Basics of Fidelity Bonding

by Steven P. Kahn, CPCU, ARM

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ARM TECH

BASICS OF FIDELITY BONDS

by
Steven P. Kahn, CPCU, ARM
Principal, ARM Tech

The statutes of most, if not all, states require a "public officials" bond of certain elected and appointed officials. To protect themselves against financial loss, most public entities also purchase fidelity insurance on other employees.

Most governmental risk managers have long had responsibility for purchasing fidelity insurance on employees. While many risk managers have not been involved in determining when and to what limit surety bonds should be purchased, this is changing.

This article presents the basics of fidelity bonding. Key terms and coverages are discussed, as are the types of bonds that should be required and to what limits.

Types of Bonds

The major reason to buy fidelity bonds is to protect the agency against financial loss that can result from the dishonest acts of its employees. The three principal types of coverage and the protection provided by each are:

1. Public Official Bond

Public official bonds are the bonds certain officials (e.g., city treasurer and county tax collector) are required to purchase by state law. Because they are statutorily required, these are often referred to as *statutory bonds*.

The exact wording of a statutory bond is often contained in some statutes. Thus, it can vary by state.

The obligation for which the official is bonded usually reads: "to well, truthfully and faithfully perform all official duties required by law."

The bond limit may be established in the statutes. It is more likely that the statutes will state who is to establish the limit (e.g., a city council or school board).

Public official bonds usually run for the official's term of office. While some bonds may allow the insurer to cancel by providing a certain number of days' notice, most are non-cancelable.

2. **Dishonesty Bond**

Dishonesty bonds insure the public entity against:

> "Loss sustained by the insured through any fraudulent or dishonest act of the employees committed during the policy period."

Dishonesty bonds are organized in the same fashion as other insurance policies. As such:

a. They are usually written for a one- or three-year term.

b. They can be cancelled either by the insurer or by the insured.

c. The insured must select the limit of coverage it wishes to purchase.

While dishonesty bonds insure against dishonest acts of employees, for the insured to collect for a loss, the insured must show intent on the part of the employee to:

a. Cause financial loss to the insured (i.e., the public agency) and

b. Obtain financial benefit for the employee or any person or organization intended by the employee to receive that benefit.

3. **Faithful Performance Bond**

Faithful performance bonds insure against:

> "Loss sustained by the insured through failure of any employee to perform faithfully his duties or to account properly for all monies and property received by virtue of his position or employment during the policy period."

The insuring agreement of faithful performance bonds is broader than that of dishonesty bonds. This is because faithful performance bonds insure against failure to faithfully perform duties, not solely against dishonest acts. Also, faithful performance bonds do not contain the two caveats in dishonesty bonds regarding causing financial loss to the insured and obtaining financial benefit by the employee. It should be noted that faithful performance bonds usually cost 25% more than dishonesty bonds.

Conditions

All insurance policies contain conditions. The conditions section of the policy imposes certain duties upon the insurer and the insured.

Public official bonds are actually a type of surety bond even though they protect the entity against the dishonest acts of employees, much the same as dishonesty bonds. Because

public official bonds are not traditional insurance policies, they do not contain the conditions that are to be found in other types of insurance policies.

Dishonesty and faithful performance bonds are written on virtually identical policy forms and contain virtually the same conditions, key of which are:

1. Discovery Period

The insuring agreements of dishonesty and faithful performance bonds state that they cover losses committed during the policy period. The discovery period condition allows the insured up to one year from the end of the policy period to discover a loss and still make a claim under the policy.

2. Duties in the Event of a Loss

In the event of a loss, the insured must:

a. Notify the insurer of the loss.

b. Provide proof of the loss to the insurer.

c. Submit to examination by the insurer under oath.

d. Cooperate in the insurer's investigation of the employee(s) causing the loss.

3. Subrogation

The insurer requires that the insured give it the right to collect the loss from the dishonest employee. This is an important condition. If you submit a claim, you can expect the insurer to attempt to collect its payment from the employee.

4. Cancellation

The insurer is allowed to cancel coverage for a single employee or the entire bond. Coverage for individual employees is:

a. Automatically cancelled immediately upon discovery of a dishonest act committed by that employee. The discovery must be by "any official or employee authorized to manage, govern or control employees."

b. Cancelled upon 30 days' written notice by the insurer.

The insurer may cancel the entire bond (i.e., coverage for the whole organization) upon a certain number of days' written notice (typically 30 days).

The provision stating that coverage is cancelled immediately upon discovery of a dishonest act by an employee is important. If one of your managers discovers a dishonest act by an employee, any subsequent losses caused by that employee are not covered. If you wish coverage to be continued on that employee, you must specifically arrange coverage with the insurer.

Exclusions

Historically, public official bonds contained no exclusions. Because of the losses some insurers have experienced, some public official bonds now exclude:

1. Bank failure, which is loss caused by the failure of any financial institution in which your organization has deposits.

2. Loss caused through failure to collect taxes.

Dishonesty and faithful performance bonds contain a number of exclusions. The most important are:

1. Loss caused by an employee for which similar coverage has been cancelled. If coverage for one of your employees has been cancelled (e.g., because of a prior dishonest act), you must notify the insurer and specifically arrange coverage.

2. Loss that must be proven by an inventory or profit and loss computation. To collect for loss, it is not sufficient that your books do not balance. You must be able to point to an employee whom you believe contributed to the loss.

3. Loss caused by an employee required to be bonded. Public officials required to purchase their own bond are excluded by the standard dishonesty and faithful performance bonds. Insurers reason that these individuals represent an extra hazard and are already bonded. However, it may be possible and desirable to cover these individuals under faithful performance and dishonesty bonds as discussed later.

4. Loss caused by a treasurer or tax collector, by whatever name known. Treasurers and tax collectors are usually required to purchase a public official bond. Hence, they would be excluded under number 3 above. Because treasurers and tax collectors represent a significant exposure to loss, they are excluded just in case they are not required to purchase a public official bond. Many insurers will delete this exclusion.

5. Loss resulting directly or indirectly from trading. Insurers will not pay losses you incur from swings in the stock market or from authorized or unauthorized trading.

6. Loss resulting from failure of any entity (e.g., bank or savings and loan) acting as a depository. This is similar to the exclusion already described for public official bonds.

7. Indirect losses. The insurer will not pay:

   a. Loss of income, such as interest you did not earn because money was stolen.

   b. Payment of punitive or exemplary damages.

   c. Cost of proving the existence or amount of a loss.

Methods of Arranging Coverage

Two basic choices must be made in arranging coverage. The first is whether to purchase a blanket *position bond* or a *blanket bond*.

Blanket bonds apply the bond limit to the entire loss, regardless of the number or types of employees involved. If you have a blanket bond with a $100,000 limit and three employees contribute equally to a $250,000 loss, the insurer will only pay $100,000.

Instead of a blanket bond, you may purchase a blanket position bond. Blanket position bonds apply the limit to each employee. In the example given, if a blanket position bond were in force, the insurer would pay up to $300,000 and the entire loss would be covered.

The second basic choice you must make is whether to purchase a blanket bond or a schedule bond. A blanket bond covers all employees (except those specifically excluded, such as treasurers and tax collectors). A schedule bond covers only the positions (e.g., school principal) or employees (i.e., individuals identified by name) listed in the bond.

Structuring Coverage

Exhibit 1 shows three alternatives for structuring coverage. Many additional structures could be used. The rationale for each structure in Exhibit 1 is:

1. Figure A. Many organizations want to purchase high limits of coverage on all employees. Their preferred form is a faithful performance blanket bond. However, it is sometimes difficult to obtain faithful performance coverage to the limits desired. In such situations, a faithful performance bond can be purchased to the limit available with excess coverage obtained under a dishonesty bond.

2. Figure B. You may decide that a faithful performance blanket bond to a certain limit provides sufficient protection for all but one or a few employees.

In this situation, premiums can be saved by purchasing a schedule bond on the few individuals for which excess protection is desired rather than for all employees.

3. Figure C. The limit to which your public officials are required to purchase public official bonds may be low. With the insurer's approval, you may endorse your faithful performance (or dishonesty) blanket bond to apply in excess of the public official bonds.

There are many ways to arrange coverage. You must first, of course, decide which employees or officials are to be bonded, the form of coverage desired and the limit to be obtained. You can then obtain premium quotations for several alternatives and select the one that provides you the best combination of coverage and cost.

Limit

Selecting the correct bond limit is extremely difficult. It is impossible to predict the size of loss you might incur. Further, dishonesty losses occur infrequently. This makes it difficult to estimate what might happen to you based on which has happened to others.

The Surety Association of America published a chart to help select minimum bond limits. It is reproduced in Exhibit 2. While this was developed for corporations, it is worth using as a guide for public entities.

The table is used by first estimating an "exposure factor." The exposure factor is 20% of current assets plus 10% of annual revenue. The principal current asset of public entities is cash.

Once the exposure factor has been determined, the suggested minimum bond limit is obtained by reading across. If, for example, a public entity has $2 million cash in the bank and $25 million in annual revenue, the exposure factor would be:

.2 x $2 million + .10 x $25 million = $2.9 million

An exposure factor of $2.9 million results in a minimum bond limit in the $200,000 to $300,000 range.

Summary

This article has only touched the basics of fidelity bonding. To learn more, you should call your insurance advisor or your insurer. Fidelity bonds provide important protection to your entity. Properly arranging this coverage in advance will pay rich dividends in the event of a loss.

Exhibit 1

EXAMPLES OF COVERAGE STRUCTURES

Figure A

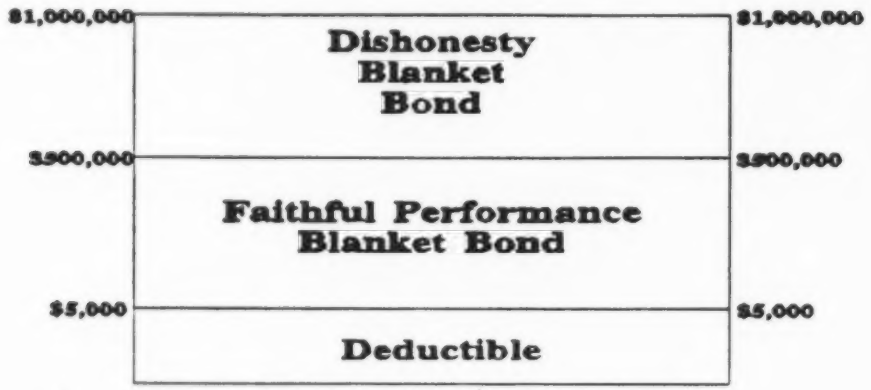

Figure B

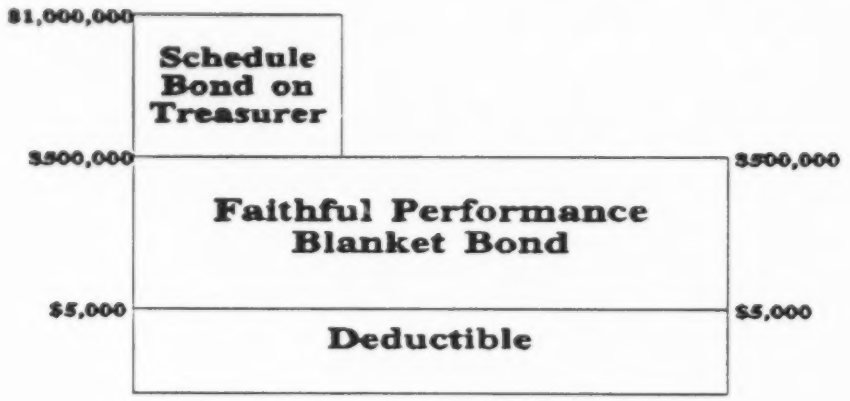

Figure C

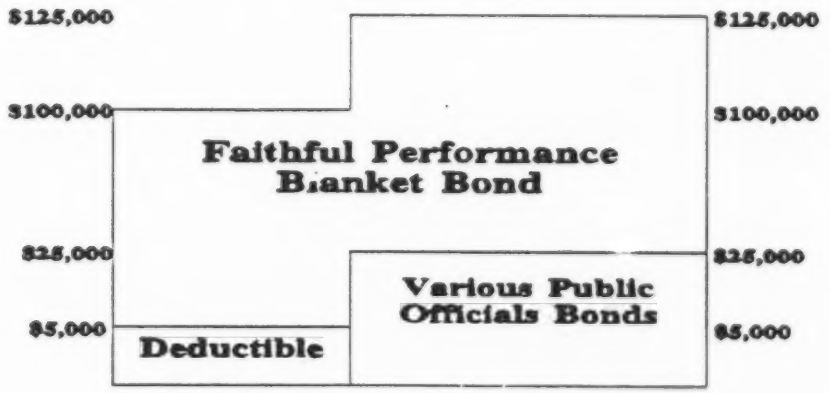

Exhibit 2

ESTIMATING COVERAGE LIMITS
ONE INSURER'S APPROACH

Exposure Factor = 20% of total current assets, plus 10% of annual revenue

Suggested Minimum Limits			
Exposure Factor		Amount of Bond	
Up to	$25,000	$2,500 to	$25,000
25,000 to	125,000	25,000 to	50,000
125,000 to	400,000	50,000 to	100,000
400,000 to	1,000,000	100,000 to	150,000
1,000,000 to	2,000,000	150,000 to	20,0000
2,000,000 to	4,000,000	200,000 to	300,000
4,000,000 to	6,000,000	300,000 to	400,000
6,000,000 to	10,000,000	400,000 to	600,000
10,000,000 to	15,000,000	600,000 to	800,000
15,000,000 to	25,000,000	800,000 to	1,000,000
25,000,000 to	75,000,000	1,000,000 to	1,500,000
75,000,000 to	175,000,000	1,500,000 to	2,000,000
175,000,000 to	500,000,000	2,000,000 to	3,000,000
500,000,000 to	1,000,000,000	3,000,000 to	4,000,000
1,000,000,000 to	1,500,000,000	4,000,000 to	5,000,000